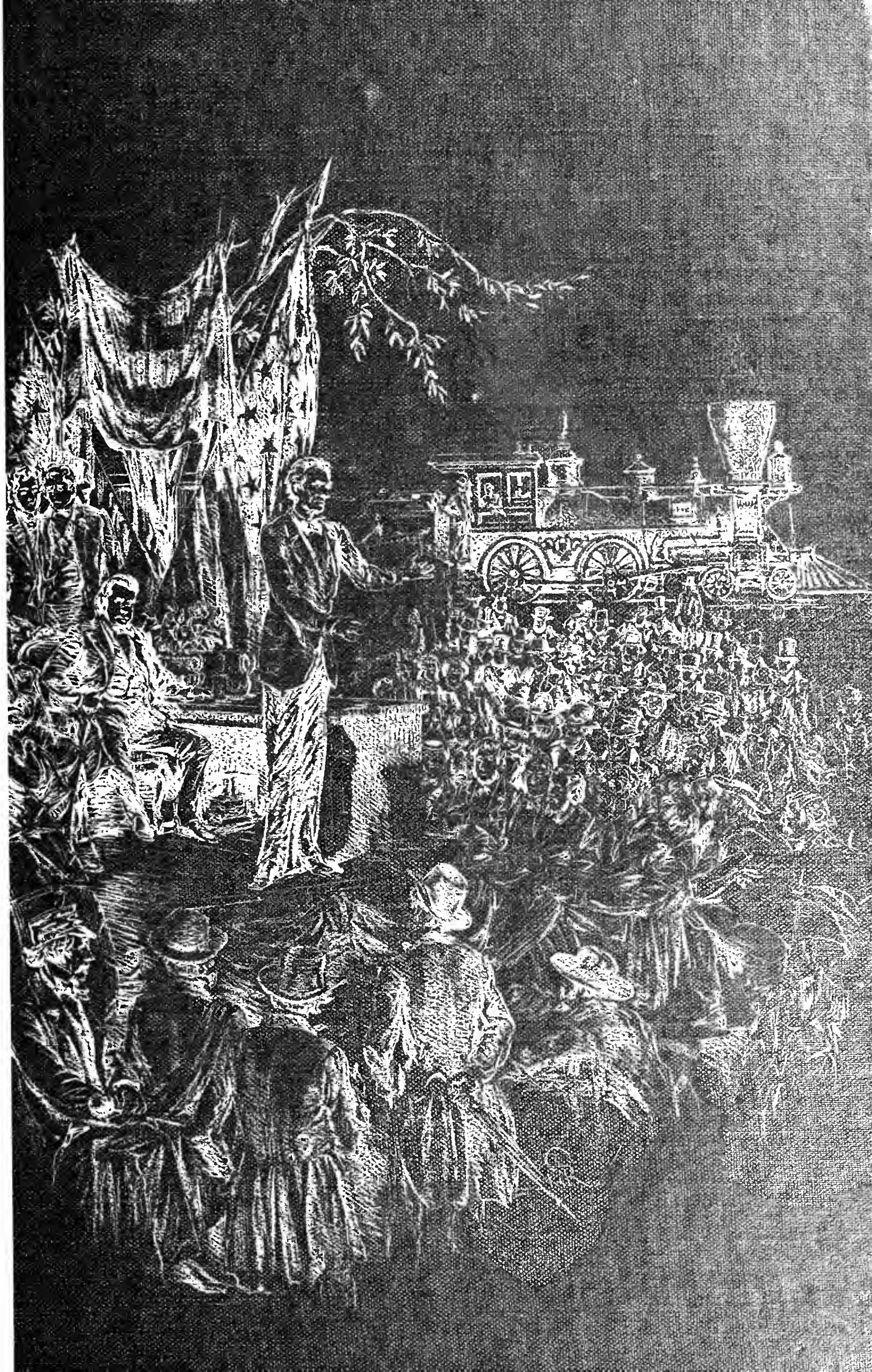

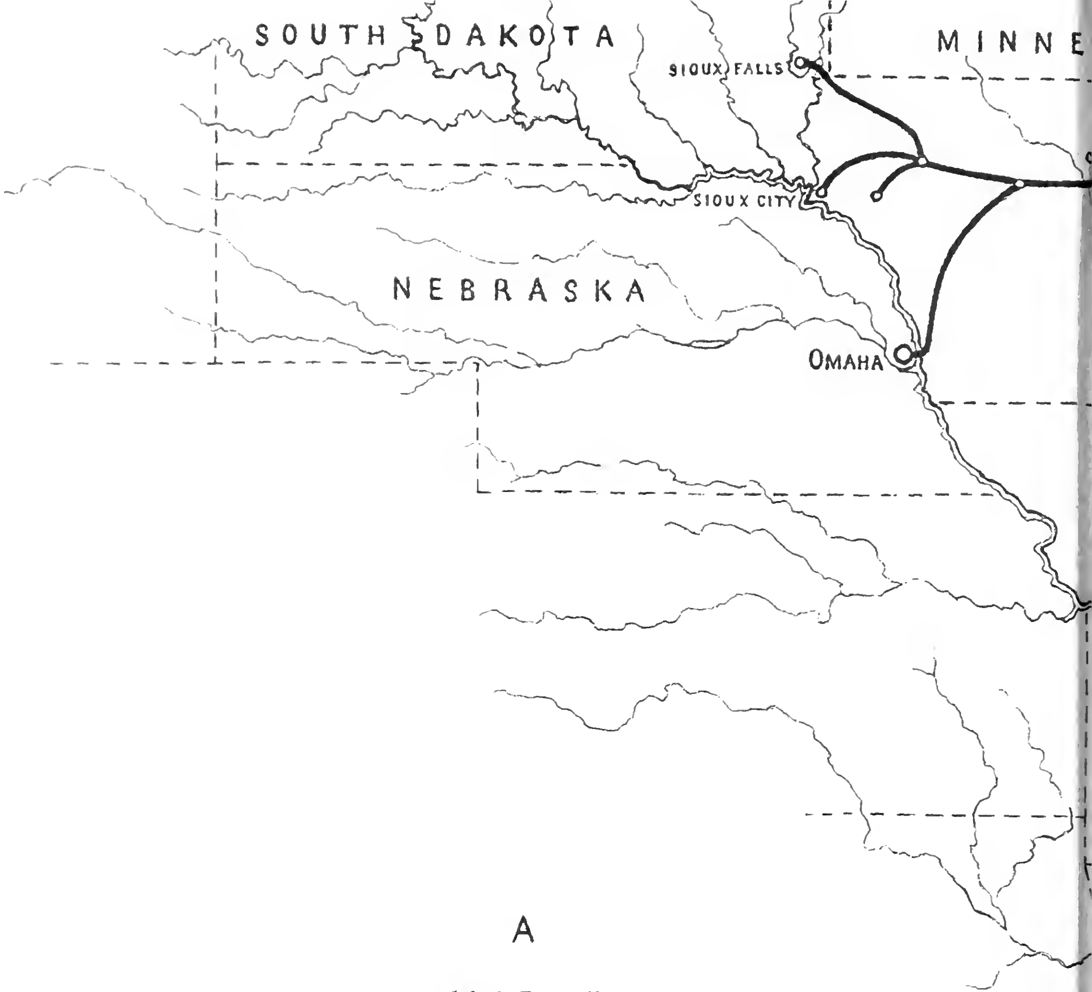

A

MAP OF

THE

ILLINOIS CENTRAL RAILROAD

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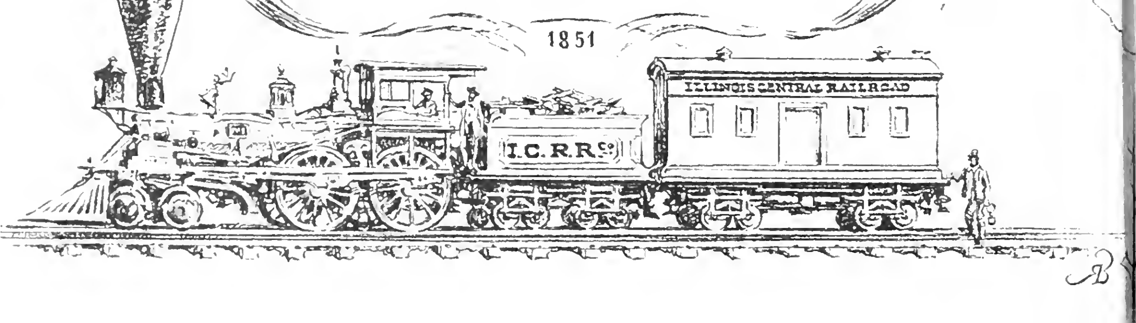
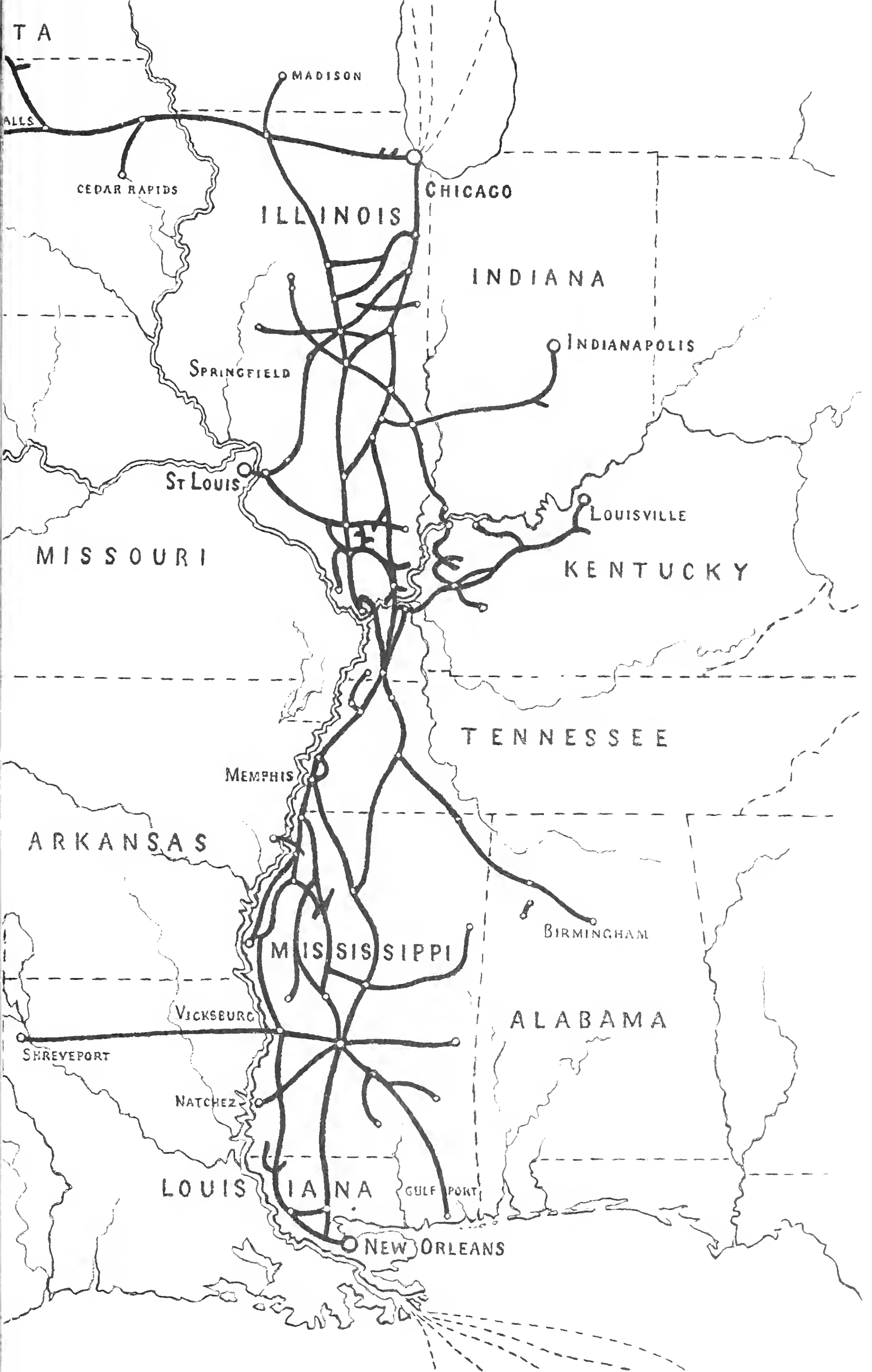
1851

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NATCHEZ
LOUISIANA
GULFPORT
NEW ORLEANS

ABRAHAM LINCOLN

AND THE

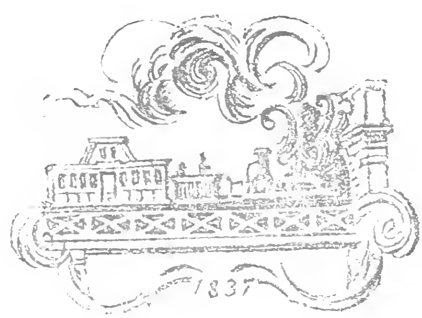
ILLINOIS CENTRAL RAILROAD

Abraham Lincoln
and the
Illinois Central Railroad

MAIN LINE OF MID-AMERICA

ITS ORGANIZATION, FINANCING, AND SUBSEQUENT
SIMPLIFICATION OF DEBT AND CAPITAL STRUCTURE
THROUGH MAY 1955

BY EDWIN S. S. SUNDERLAND



NEW YORK · PRIVATELY PRINTED

1955

To two remarkable and lovable ladies:

MY WIFE

AND MY 96 YEAR OLD MOTHER

both of whom were comrades and helpers

in the development

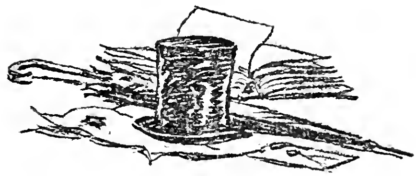
of the territory served by the Illinois Central Railroad

and in the inspiration

that made this book possible

AN examination of the Bibliography of Abraham Lincoln and the Illinois Central Railroad, which is to be found at the back of this book, emphasizes the important role that Lincoln played not only as an attorney but as a politician in the organization and development of the Railroad and the growth of the territory that it serves. The organization and financing of the Main Line of Mid-America have been the result of the thought and work of many prominent leaders in America, whose names are given in the text.

The construction and acquisition of many small railroads in the Mississippi Valley, each having created debt, resulted in a complicated debt structure which was unified and simplified during the period 1938-1952 under the financial leadership of Eugene W. Stetson, Chairman of the Finance Committee, and the Board of Directors. The accomplishment is set forth in detail in this volume. From 1953 through May 1955 a further accomplishment in this regard has been brought about, one which is worthy of note and is emphasized herein. Great credit, particularly during the last decade, is due to Wayne A. Johnston, the able President, and to his competent cabinet of officers. These improvements are attributable not alone to leadership but also to the thirty-odd thousand men and women who competently and enthusiastically have given their best service to this great enterprise and to the development of the Mississippi Valley.



PREFACE

INCLUDING REFERENCES TO CONTENTS

On December 31, 1952, there was privately printed by the present author a brochure dealing with the simplification of the Illinois Central Railroad's debt structure during the period 1938 through 1952. This brochure, largely pursuant to request, was distributed not only to persons connected with the Railroad, but to public libraries, the libraries of chambers of commerce, and those of the colleges and universities in the fourteen states in the Valley of the Mississippi River from the Great Lakes to the Gulf of Mexico. Additional requests were satisfied by a second printing, but copies are no longer available. More importantly, since the date of publication of the brochure, December 31, 1952, many changes have occurred in the debt and capital structure of the Railroad by reason of the issue of roughly $100,000,000 of Bonds, principally for refunding purposes, on terms which have reduced greatly the annual fixed charges on the Railroad's mortgage debt, which is approximately $128,000,000. Approximately $35,000,000 of Debentures have been retired; and approximately $5,000,000 in Sinking Fund Debentures have been issued in order to provide funds at the time expected to be necessary for the redemption of the 6% Preferred Stock, Series A. The small amount of the Debentures recently issued is accounted for by the fact that substantially all of the convertible Preferred stockholders—particularly the Union Pacific Railroad under the leadership of E. Roland Harriman, Chairman of the Board of Directors, and Robert A. Lovett, Chairman of the Executive Committee of the Board—have converted their Preferred shares into Common shares.

In the last two years, a substantial amount of Equipment Trust Certificates have been issued in order materially to advance the Dieselization Program of the Railroad.

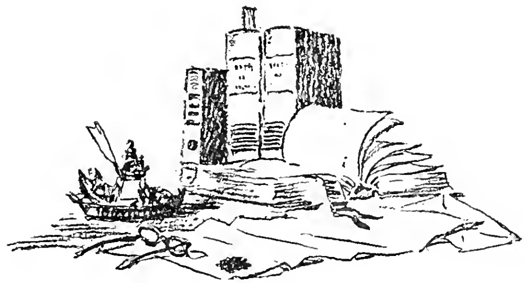
Furthermore, examination of the works and documents enumerated in the Bibliography at the end of this book has impressed the author with the fact that a greater emphasis than has heretofore been given is warranted for the activities of Abraham Lincoln as attorney for the Illinois Central Railroad and as a legislator in connection with the organization and financing of the Railroad and the growth of the territory that it serves.

Consequently, before dealing with the expansion of the Illinois Central Railroad into the Illinois Central System, and before dealing with the action looking to the simplification of the debt and capital structure of the Railroad beginning in the middle or late 1930's and carried on especially from 1943 through May 1955, there is briefly recorded the participation of Abraham Lincoln as an attorney and legislator in the organization and development of the Illinois Central Railroad. This includes the agricultural and industrial development as a result of Federal and state land grants first of the State of Illinois and ultimately of the entire territory served by the Illinois Central Railroad in the Mississippi Valley.

It has also been deemed important to show statistically in this book the financial results obtained during the last two years, in order that the entire record may be before those who have been concerned with the earlier publication.

EDWIN S. S. SUNDERLAND

June 1, 1955



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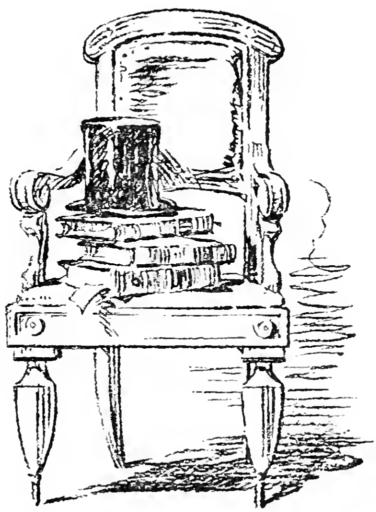
PART I
ABRAHAM LINCOLN
AND THE
ILLINOIS CENTRAL RAILROAD



"The Illinois Central
may well be proud of Abraham Lincoln—
not because he afterwards became President
of the United States,
but because as an attorney he served his client
superlatively well."—PAUL M. ANGLE.

ABRAHAM LINCOLN, in launching his first political campaign for the office of Representative in the Illinois General Assembly when he had just passed his twenty-third birthday, addressed his fellow citizens on March 9, 1832. The subject of his statement was internal improvements and the need for transportation by railroad in Illinois. There is to be found in this statement the following: "No other improvement that reason will justify us in hoping for can equal in utility the railroad. It is a never-failing source of communication between the places of business remotely situated from each other. Upon the railroad the regular progress of commercial intercourse is not interrupted by either high or low water or freezing weather, which are the principal difficulties that render our future hopes of water communication precarious and uncertain."

In his statement, and in subsequent campaign speeches in 1832, he approved of the established custom and the principles of true republicanism, which make it a duty for a candidate for public office to make known to fellow citizens whom he pro-

poses to represent his sentiments in regard to the important questions, such as those of railroads and internal improvements. In his published statement, addressed to the people of Sangamon County, Illinois, he said with great earnestness and clarity that time and experience had verified the public utility of internal improvements. He called attention to the cost that would have to be faced in making the necessary public improvements. He further stated that there could not justly be any objection to having railroads, canals, and other public improvements other than the question of cost. He referred to public meetings that were being held for the purpose of discussing some easier means of transportation than the county then possessed for exporting the surplus products of its fertile soil and importing necessary articles.

There are sincerity and earnestness in this declaration. They doubtless grew from the fact that as a young man he had built flatboats and experienced the moving of produce and the ferrying of people in creeks and rivers, particularly in the neighborhood of his birthplace at Sinking Spring Farm, near Hodgenville in Harden County, Kentucky; also on Knob Creek, a few miles from Gentryville, Ohio, where Thomas Lincoln, his father, had moved. Later much of his time was spent in clearing the snags which interfered with the progress of his ferry and flatboats along the Sangamon River in Illinois.

Shortly after Lincoln launched his political campaign for the legislature, he responded to the Illinois Governor's call for volunteers to protect the settlers of the Northwestern Frontier against the invasion of the British band of Sac and other tribes of Indians.

Lincoln organized a mounted company, of which he became captain, serving as such during this first campaign. He not only obtained a sufficient number of men for his cavalry unit but supplied them with arms. On April 28, 1832, he gave his receipt for thirty guns in order to arm completely his cavalry unit, which was then mustered into service.

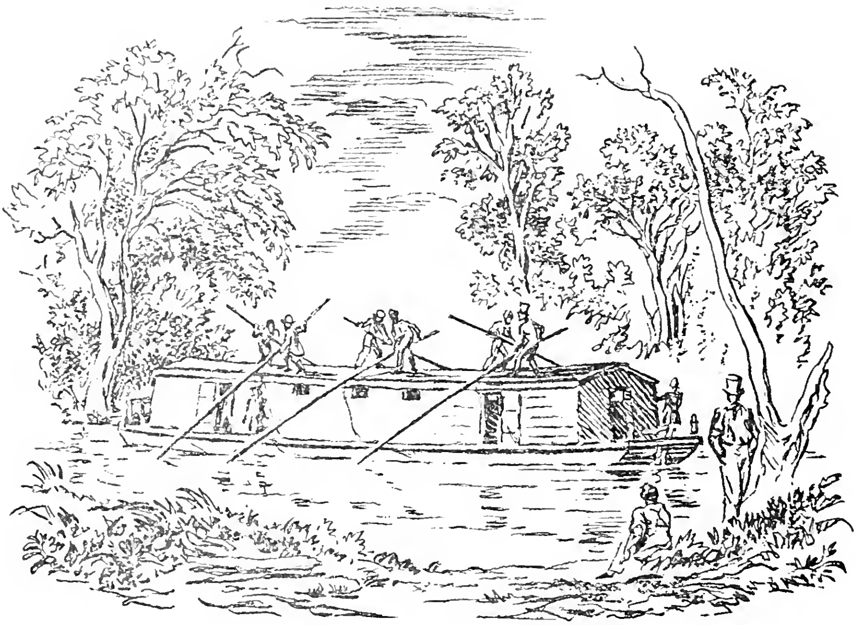
Following this successful defense of the settlers of the Northwestern Frontier, Captain Lincoln and his volunteers received honorable discharges. When the invasion by the Indians was

renewed, he immediately re-enlisted as a private. This second invasion was successfully defeated and he was again honorably discharged.

At the conclusion of the Black Hawk Wars, he returned to Springfield and his law office. He also resumed his campaign for election to the Illinois Legislature.

During these war experiences, Captain Lincoln travelled across the prairie and the swamplands and dense woods, particularly in the northwestern part of the state. He witnessed the difficult conditions of the terrain. He also had time to reflect on the difficulty of transporting goods and people. Consequently, it was very natural and understandable that his mind should turn with greater emphasis toward the problem of organizing a railroad in Illinois and of finding some method of financing its construction and the development of the territory.

In his political campaigns, Lincoln frequently called attention to the trying traffic conditions which he had witnessed during the Black Hawk Wars. He asserted that transportation over the wooded areas and the prairies was practically impossible. He graphically emphasized the fact that the swift-moving streams, whose force resulted from the heavy rains, made men wade breast-deep for hours, pushing the flatboats and the keel boats against the rapid currents. In the swamps, wagons were constantly mired. It was found almost impossible to move freight overland through the black muck and the tangled roads, and the supplies and ammunition of the army moved with the greatest difficulty. He reported that the soldiers suffered from being constantly wet, and that the necessity to move in the deep mud greatly retarded their progress. It was, consequently, quite natural that Abraham Lincoln made the need for better transportation the subject of his political speeches in 1832 and in 1834. He had heard of the efforts being made in the East to substitute transportation by railroad for water and overland transportation. He knew of the successful effort in New York by Governor De Witt Clinton, who, having been the father of the Erie Canal, had turned his attention to the building of a railroad. He had heard that the first locomotive on this railroad was named in honor of Governor Clinton.



LINCOLN'S FLAT BOAT ON THE SANGAMON RIVER

It is reported that Lincoln told his friend Joshua Speed that he was aiming to be the De Witt Clinton of Illinois.

EARLY ILLINOIS PROGRAMS FOR TRANSPORTATION DEVELOPMENT

In December 1835, the General Assembly of the State of Illinois had before it at Vandalia, where it was sitting, the very important measure providing for the incorporation of the Central Railroad Company, with the necessary authorizations to build and operate a railroad with branches from the mouth of the Ohio River to Galena. This bill, which became a law on January 16, 1836, received the support of Abraham Lincoln and that of his law partner, John Stuart.

Under the law, the Central Railroad was authorized to issue capital stock to the extent of $2,500,000 upon the condition that not more than five shares of capital stock could be held by any one person. This restriction was designed to prevent the Railroad from being controlled by a few individuals, especially those resident outside of the State of Illinois.

A necessary corollary to this effort of building a railroad was the passage of legislation under which the lands in Illinois through which the route was to run would become available. In addition, there was the possibility that through sale of adjacent land to settlers and developers help might be secured towards financing the construction of the Railroad as well as the growth of the country. To this end, the Internal Improvement Act which was passed by the Illinois Legislature on February 27, 1837, made provision for a network of over 1,300 miles of state-owned railroad extending into many parts of Illinois. Various railroad lines were the subject of consideration in order to make the system available to the growing cities throughout the state.

The project was to be financed by money borrowed by the State of Illinois. The first estimate of the amount required was $10,000,000, but within a short time this estimate was doubled. This involved the government of the state in a commitment for a very large amount. It is estimated that the commitment equalled about $268 for every family then living in Illinois.

Abraham Lincoln, as the leader of Sangamon County's "Long Nine," so called because each member of this group of politicians averaged over six feet in height, was the most influential member of the Illinois Legislature at that time. He and his associates worked incessantly for the Internal Improvement Bill which, as above stated, provided for a complete network of railroads, particularly in the northwestern part of the state, and included railroads running across the state. It also provided for the removal from Vandalia to Springfield of the capital of Illinois. The actual removal of the capital was delayed until July 1839, but work was immediately begun on the railroad project, and over $1,000,000 was spent in construction. The costs were so prohibitively large that the Legislature responded to the public insistence that the project be abandoned.

Further consideration of the project made it clear that the plan in the Internal Improvement Act of 1837 was too ambitious and placed too heavy a burden upon the small number of people resident in the territory. The general subject was, however, revived later.

Abraham Lincoln was re-elected to the Legislature in 1838. Various plans for carrying on the necessary internal improvements of the state and the building of a railroad which would serve the territory were again the subject of intense and active discussions.

EFFORTS TO SECURE FEDERAL AID (LAND GRANTS)

The first effort along these lines having failed, the subject of building a railroad was revived in 1842, when Sidney Breese, who had just completed the first lawbook ever published in the state, and who was a native of New York and a first cousin of Samuel F. B. Morse, the inventor of the telegraph, announced his candidacy for the United States Senate. He stressed in his campaign the necessity of reviving the Central Railroad plan, with the modification that the new railroad should be a private enterprise and not a state project. In the development of this project he had the assistance of William S. Wait, who had come

from Maine and had impressed Judge Breese and his associates with his earnestness in advocating the construction of railroads in Illinois. Thus, at an early date the railroad project was beginning to be viewed as one of national scope and significance and not only as one benefiting the State of Illinois. Indeed, it was the purpose of this endeavor to have a railroad constructed that would become a part of a great system of rail transportation reaching through Illinois and into the Northeast and Northwest and the South and Southeast. In any such comprehensive plan, it was natural, therefore, to turn to the Congress of the United States. There, it was hoped, would be found the means by which such an ambitious undertaking could be financed.

As an outgrowth of Abraham Lincoln's enthusiasm, as well as the demand among the electorate for a railroad and for the necessary internal improvements, the voters supported the new leader in this endeavor, and Breese took his seat in the Senate on March 4, 1843. He devoted himself unceasingly to obtaining Federal aid in furtherance of this project during his six years as Senator.

Lincoln, after a vigorous campaign in which he repeatedly emphasized the need for internal improvements and Federal and state land grants to provide for the construction of the Railroad, was elected a member of the United States House of Representatives and took his seat on March 4, 1847. He made his first speech in support of these projects on December 20, 1847, only fourteen days after he had taken his oath of office. In his second speech, on December 22, 1847, he presented memorials from his constituents in Illinois urging land-grant aid for the proposed Central Railroad "connecting the upper and lower Mississippi Rivers with the chain of lakes at Chicago." As a member of Congress, Lincoln also presented a Joint Resolution of the General Assembly of Illinois calling for an outright grant of land for the Railroad project.

The building of the Railroad and the grant of land in aid thereof was the most important subject debated in the Thirty-first Congress during the ten months of its session, from December 1849 to September 1850. At this time, Lincoln had his first

debate with Stephen A. Douglas, who came to Illinois from Brandon, near Middlebury, Vermont, home of Middlebury College, founded fifty years before in 1800. Douglas arrived in Illinois in the autumn of 1833. He was a schoolteacher at first, and during that time he learned the fundamental principles of the legal profession, so that he was able to hang out his shingle as a practicing lawyer at the age of twenty-one. One year later he became State's Attorney for Morgan County, Illinois. Two years more and he was in the Illinois Legislature. Then occurred his first debate with Lincoln. He worked with Lincoln as a fellow member of the Legislature in supporting the Central Railroad feature of the Internal Improvement Bill of 1837. Douglas, however, opposed certain other provisions of the Bill. He became Secretary of State of Illinois when he was twenty-seven years old, and before he reached his twenty-eighth birthday, he was a judge of the Supreme Court of the state.

In December 1843, several months after Sidney Breese took his seat in the United States Senate, Stephen A. Douglas took his in the House of Representatives.

During Douglas's campaign for the United States Senate in 1846, he pledged to the people of Illinois that if elected, he would direct his efforts to obtaining from the Federal Government an outright grant of land, instead of the pre-emption rights which had been advocated by Judge Breese.

Also, he joined with Lincoln in urging upon the electorate, and indeed in promising to it, that he would obtain a branch of the Railroad to Chicago. This promise, perhaps more than any other, resulted in his being elected to the Senate.

Both Senator Douglas and Senator Breese introduced bills in the Senate in behalf of the Central Railroad. The bill introduced by Judge Breese favored the grant of pre-emption rights directly to a private corporation. Senator Douglas sought a direct grant of land, not to a railroad company, but to the State of Illinois. Senator Douglas's bill was thoroughly debated and passed the Senate on May 4, 1848.

Lincoln made an important speech explaining the provisions of the bill when it reached the House of Representatives. In spite of the teamwork between Congressman Lincoln and Sena-

tor Douglas, in the main supported by Judge Breese, the bill was defeated.

As a result of this defeat, Douglas drafted a new bill, which was introduced at the opening of Congress in 1849. Judge Breese had been defeated for the senatorship by General James Shields, but Shields was both a personal and a political friend of Douglas's and did all in his power to promote the bill. The debates in both houses were participated in not only by Abraham Lincoln, but also by Daniel Webster of Massachusetts, Henry Clay of Kentucky, and John C. Calhoun of South Carolina, known as "the Great Triumvirate." It was in this unusual political atmosphere that Douglas and his colleagues, including Lincoln, laid their plans for the final fight for the Illinois Land-Grant Bill. During these spirited debates, many changes were made in the original bill as proposed by Douglas. Finally, on April 29, 1850, Douglas's bill became the main order of business in the Senate. It called for a grant to Illinois of a right-of-way through the Federal lands and of alternate sections of land having a width of six miles on each side of the proposed railroad; the railroad was to extend from the junction of the Ohio and Mississippi Rivers to the southern terminus of the State Canal, with branches to Chicago and Galena. The condition of the grant in the bill was that the lands would revert to the Federal Government if the railroad was not begun within two years and finished within ten.

This was the first proposal seriously considered for granting lands for aid in the construction of a railroad, notwithstanding that it had been the long-established policy of the Federal Government to grant public lands to aid in building public roads and canals.

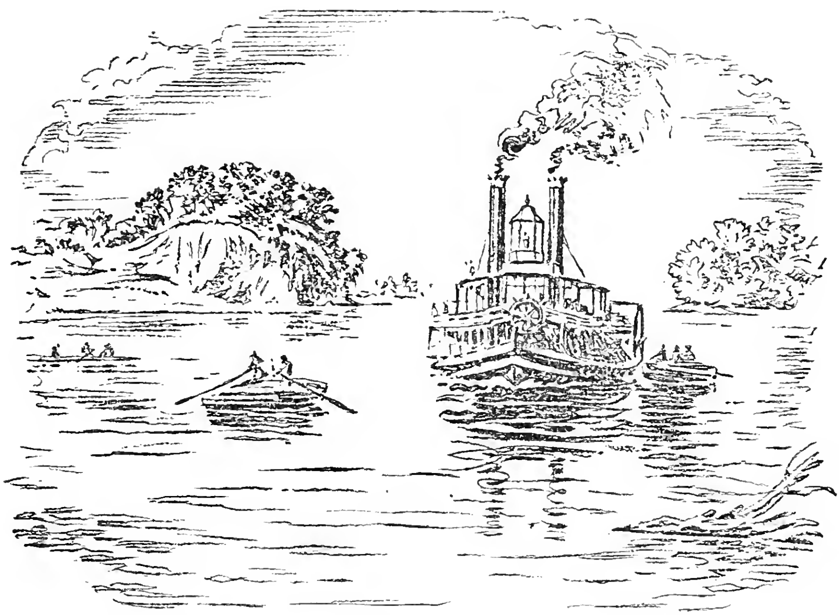
As a recognition of the character of the land—it was wilderness and prairie—and the difficulty of using it for the construction of the railroad and for development, the price fixed in the bill which the Government was to receive for alternate sections which it retained was $2.50 an acre; this was double the minimum which was placed by the Government on the alternate sections that were granted to the Railroad. The purpose of this provision was to enable the Government to receive as

much for the alternate sections which it retained as it would otherwise receive for the entire area. There were spirited debates over this and other provisions of the bill. Senator Henry Clay strongly supported the bill, and in his debate said: "I happen to know something personally of the interior of the State of Illinois. . . . Now, this road will pass directly through the Grand Prairie lengthwise, and there is nobody who knows anything of that Grand Prairie who does not know that the land is utterly worthless for any present purpose—not because it is not fertile, but for want of wood and water and from the fact that it is inaccessible, wanting all facilities for reaching a market or for transporting timber, so that nobody will go there and settle while it is so destitute of all the advantages of society and the conveniences which arise from a social state. And now, by constructing this road through the prairie, through the center of Illinois, you bring millions of acres of land immediately into the market which will otherwise remain for years and years entirely unsalable."

On May 3, 1850, the Douglas bill was passed in the Senate by a vote of twenty-six to fourteen. At the time of its passage, President Zachary Taylor was ill, and before the bill reached him for his signature, he died of pneumonia. He was succeeded by Vice President Millard Fillmore, who signed the bill on September 20, 1850. It is reported that not only Senator Douglas and his supporters, including the "Great Whig," Henry Clay, but also Abraham Lincoln and his group, who had worked diligently for many years to obtain this result, were greatly elated at the successful completion of their efforts. Late in September 1850, Congress adjourned.

CHARTER OF ILLINOIS CENTRAL RAILROAD COMPANY (FEBRUARY 10, 1851)

When the Illinois Legislature assembled in January 1851, Lincoln and several of his associates, who had been working for the legislation under which the Illinois Central Railroad might be organized, asked Governor French of Illinois to present to the Legislature the proposal for construction of the lines as



ILLINOIS CENTRAL MISSISSIPPI PACKET AT CAIRO

passed by Congress. In this request, it was agreed that the Railroad would pay the State of Illinois in lieu of ad valorem taxes such percentage of the gross earnings of the Railroad as the Legislature might decide. This provision gave rise to the so-called Charter Tax on the Railroad, whose lines were later constructed 705 miles in length in the state.

Thus, it came about that the bill to incorporate the Illinois Central Railroad Company was introduced in the Illinois Senate on January 14, 1851, and a substitute bill was introduced in the Assembly on February 5. After much debate and many amendments, there was included the requirement that in lieu of other taxes, the Railroad should pay into the State Treasury 5% of the gross operating revenues of the land-grant lines in Illinois, plus a state tax which would have the effect of bringing the total tax up to 7% of the Railroad's gross operating revenues. The unique provision that the Governor of Illinois should serve as a member ex officio of the Board of Directors of the Railroad Company was also added.

Under the terms of the legislation, the Railroad Company had four years in which to complete its main line as therein described, and six years to complete the branches mentioned in the legislation.

On Thursday, February 6, 1851, the Illinois Senate passed the Illinois Central bill by a vote of 23 to 2, and on the following Monday, February 10, the Illinois House of Representatives, including Abraham Lincoln, passed it by a vote of 72 to 2. On the afternoon of the 10th, Governor Augustus C. French affixed his signature to the Charter. Thus, after many years of effort on the part of Lincoln and his associates, the first Federal land grant to aid in the construction of a railroad was completed and the Illinois Central Railroad Company came into being.

The Illinois Central Railroad, under the terms of the Congressional Land-Grant Act and the Illinois State Charter, received approximately 2,595,000 of the 11,000,000 acres of public lands in Illinois. There was one provision which had a serious effect on the ability to finance the Railroad. This provision prohibited the Railroad from selling any of the lands thus received until the Federal Government had sold all of its lands in the

alternate sections within the land-grant zones. It meant that the Railroad had to look elsewhere to finance the initial construction. This was because it could not and did not receive sufficient proceeds from the sale of the grant-in-aid lands until later.

ORGANIZATION AND EARLY FINANCING OF THE RAILROAD

On March 19, 1851, five weeks after the granting of the Charter, the incorporators of the Illinois Central Railroad Company met at No. 1 Hanover Street, New York City, to complete the organization of the Company and to develop plans for financing construction. At this first meeting of the incorporators, and at the meeting of its first Board of Directors which followed, Augustus C. French, Governor of Illinois, in his capacity as ex officio member of the Board in accordance with the terms of the Charter, was present and acted with the other Directors in developing plans for financing construction. At the meeting of the incorporators, sufficient funds were raised by those present to make the guaranty-of-good-faith deposit of $200,000 with the State of Illinois, in accordance with the requirement of the Railroad's Charter. There was also raised at that time $300,000 to meet the expenses of the organization of the Railroad. The Board elected Robert Schuyler, an Eastern capitalist, as President.

In April 1851, the President submitted to the Board a financial plan, which was adopted. The plan provided for the issue of $17,000,000 of Construction Bonds secured by a mortgage on the 2,000,000 acres of the Railroad's lands, as well as the right-of-way and the other assets of the Railroad, and provided for the setting aside of 250,000 acres of land as security for the payment of interest on the Construction Bonds.

The Bonds were to be issued under a Deed of Trust dated September 1, 1851. They matured on April 1, 1875. All proceeds from the sale of the lands granted to the Railroad (other than those set aside for interest) were required to be applied to the retirement of the Bonds.

One million dollars of capital stock was required by the

Charter, and it was provided therein that this might be increased from time to time to an amount which would not exceed the cost of the road and appurtenances. All of the stock, according to the plan, was to be held by the Directors and their friends, so that the control of the Railroad would remain in their hands.

Thus, it came about that the success of the financing of the Illinois Central depended upon the sale of the Construction Bonds.

The Directors engaged the former Secretary of the Treasury in the Cabinet of President Polk, Robert J. Walker of Mississippi, to seek funds abroad. He was authorized to negotiate for the sale in the United States (if he was unable to sell them abroad) of from $5,000,000 to $10,000,000 principal amount of Illinois Central Construction Bonds. With Captain David A. Neal of Salem, Massachusetts, and President Schuyler, Walker sailed for Liverpool on September 13, 1851. In England, they called upon the political leaders of that day for assistance in obtaining funds for the Illinois Central. Among such leaders were Palmerston, Bright, and Cobden. Negotiations were conducted with the great banking firm of Baring Brothers, with George Peabody, the noted banker who was associated with Junius S. Morgan, and with several other banking firms. After two months of strenuous negotiations, Walker and Neal failed to obtain subscriptions to the Construction Bonds or a loan of any kind even though any loan was to bear 6% interest and was to be secured by some 2,000,000 acres of Illinois land.

Finally, in January 1852, Captain Neal, after many efforts to obtain financial support not only from Baring Brothers, but from the Rothschilds and other important financial groups in the City of London, returned to New York.

During the absence abroad of President Schuyler and Captain Neal, several of the Directors had made progress in the sale of Construction Bonds in the United States. The incorporators themselves and the Directors and bankers in Boston, Hartford, New York, and Philadelphia had subscribed for some $4,000,000 of 7% Construction Bonds at par with the privilege of purchasing ten shares of stock at par for each $1,000 of Bonds held.

This accomplishment encouraged the financial world, and when news reached London, the matter was reconsidered, and by August 1852 a London loan of $5,000,000 bearing interest at 6% was fully subscribed. This subscription, together with the sale of the $4,000,000 of Construction Bonds in America—a total of $9,000,000—improved the credit of the Illinois Central so that the Railroad was able to complete negotiations with British iron manufacturers, who in the light of the success of the financing plan were ready to accept Illinois Central Bonds at par in payment for large quantities of iron rails needed for construction. Initial contracts were made with British manufacturers for some 80,000 tons of rail and other iron. This purchase was the largest that had been made up to that time by any one company.

Following the sale of the Construction Bonds, the credit of the Railroad improved to the point where it was able to buy *additional* iron rail and iron for construction purposes. To this end, representatives of the Railroad met with several City of London bankers, among them the American-born London banker and financier, George Peabody, a partner of Junius S. Morgan, father of J. Pierpont Morgan and one of the founders of Morgan, Grenfell and Company of 18 Old Broad Street in the City of London. These gentlemen greatly assisted the representatives of the Railroad in making necessary purchases.

In the 1850's, the 705 miles of railroad, the so-called Charter Lines, to be constructed in Illinois made up the largest transportation project, in mileage and in cost, up to that time in the history of the country. The financing of this project was an enormous undertaking. The Erie Canal covered a distance of some 360 miles from Albany to Buffalo and had cost the State of New York over $12,000,000. The Erie Railroad had built lines covering some 337 miles at a cost of about $20,000,000 raised by corporate financing. The construction and equipment of railroads in the East had cost per mile from $60,000 to $120,000.

The fact that the Illinois Central was to be a water level route with minimum grades and curves, due to relatively level topography and the absence of heavy forests, led to the belief that its single-track lines could be constructed and equipped at less

than one-half the minimum eastern figure, or $30,000 per mile. This opinion was confirmed by the actual costs. The financing even of these lower costs, however, was a tremendous affair. This was particularly true because of the public demands for construction of branches to growing centers of population, such as the 200-mile branch to Chicago, which had at that time less than 50,000 inhabitants.

Chicago granted to the Illinois Central in June 1852 a 300-foot right-of-way, then in the bed of Lake Michigan, on which to enter the city. Chicago had no paved streets and its sidewalks were made of planks hewed from the forest. It had no protective wall against the high waters created by storms on Lake Michigan. The right-of-way ran between Twelfth and Randolph Streets, some 400 feet east of the west line of Michigan Avenue. In consideration of this grant, the Illinois Central was required to construct and maintain a breakwater from the Chicago River to the city limits.

The development of this unusual railroad entrance to the city involved the purchase of the grounds on which the old Fort Dearborn Reservation had been built. This purchase by the Railroad was made from the War Department of the Federal Government for the sum of $45,000. The Railroad also purchased from private landowners substantial acreage and riparian rights upon which to build its station, yards, and shop facilities.

Thus, the Railroad made an important investment in the lake front real estate of Chicago, which after 100 years of economical railway use became, and now is, a valuable asset.*

LINCOLN'S ACTIVITIES FOR THE RAILROAD DURING ITS CONSTRUCTION (1852-1860)

In view of the fact that Abraham Lincoln was employed by the Illinois Central as its attorney during the eight-year period

* In 1952, after freeing the air rights of this property by the refunding and extinguishing of many mortgage liens by the creation of the First Consolidated Mortgage of 1949, the first important sale of air rights was made to the Prudential Life (Assurance) Insurance Company of America in order that it might build its forty-one-story Mid-America office building, which is estimated to cost

when the line to Chicago was built and the Fort Dearborn property was acquired, it would appear that he was extremely active in this unusual development. During the construction of the Chicago branch, he was retained by the Railroad and was regularly employed by it until his nomination for the Presidency of the United States in 1860.

The Railroad issued fifty years ago a brochure entitled *Abraham Lincoln as Attorney of the Illinois Central Railroad Company.* This brochure contains reproductions of original documents in Lincoln's handwriting. Its text records that Mason Brayman, the General Counsel of the Railroad in the early 1830's, who retained Lincoln and who was afterwards a General in the Union Army, and James F. Joy, who later was General Counsel for the Railroad and with whom Lincoln was associated in the most important case involving the Illinois Central Railroad—the *McLean County* tax case—consulted with Lincoln as attorney in matters generally affecting the Railroad and employed him to try many cases in various parts of the state.

When Abraham Lincoln was practicing law at Springfield, soon after the incorporation of the Illinois Central on February 10, 1851, he received an appointment as one of the attorneys of the Railroad, which is shown by these documents and other records still in existence. Some of them are reproduced in the brochure published in 1905.

In reproductions of Lincoln's own handwriting in that brochure, it appears that he dealt with an important Constitutional question involving the terms of the Special Charter of the Railroad. The question was: "Can there be any valid pre-emption of sections of land, *alternate* to the sections granted to the Illinois Central Railroad Company?" After stating that the Illinois Central Railroad had asked his opinion on this question, he begins his opinion by writing: "This is a legal construction of 'an act to appropriate the proceeds of the sales of the public lands, and to grant pre-emption rights'. Approved Sep. 4, 1841, 5 U. S. Stat. at Large 453." The opinion continues by reviewing

in the neighborhood of $50,000,000. This is the first building of what promises to be one of the most outstanding office building developments in any city in America.

the various provisions of this and other statutes and concludes under date of March 6, 1856, as follows: "The final allotment of the alternate sections to the Illinois Central Railroad Company by the General Land Office was made on the 13th day of March 1852—It is my opinion that persons who settled on these reserved sections *prior* to the date of said 'final allotment' might have valued preemptions; and that those who settled thereon *after* the date of said allotment, cannot."

It is significant that the question dealt with in the abovementioned opinion was litigated in the Courts of Illinois. The Supreme Court of the state held in harmony with Lincoln's opinion (*Walker v. Herrick*, 18 Illinois Supreme Court Reports at p. 570).

Abraham Lincoln was associated with Brayman and Joy in the much-discussed *McLean County* tax case against the Illinois Central Railroad Company. It unquestionably was the most important case ever handled for the Railroad by Lincoln, and it is the case that has attracted the most attention on the part of Lincoln biographers and students. Its significance was very great during the Panic of 1857, when the Attorney General of the state brought it against the Railroad. It would have been fatal to the solvency of the Railroad had Abraham Lincoln not won it and relieved the Railroad from the payment of the taxes alleged to be due by the tax officers not only of McLean County, but of other counties through which the Railroad ran. The case has always been recognized as one of the most important, if not *the* most important, that had come before the Courts of Illinois. It was important not only to the Railroad, but also to the state at this stage of the depression. Had the Court determined that the counties could assess the Railroad, notwithstanding the Charter provision fixing the amount of the tax, the Railroad would have been bankrupt. In other words, if every county and municipality, notwithstanding the provision in the Charter, could levy taxes against the Railroad, the result would have been intolerable. On the other hand, if the Court should decree, as indeed it did, that the Charter tax provision was Constitutional, then the danger to both the state and the Railroad was removed. Injunctions against the tax collectors were

filed by Brayman and Gridley, with whom Lincoln was associated as counsel for the Illinois Central. Both were friends and neighbors of Lincoln's, and it is said that Brayman regarded him as one of the ablest lawyers in Illinois. Following the report of Lincoln's success in this case, the Illinois Central in its brochure refers to the largest legal fee that he had ever received and up to that time the largest paid by the Railroad. Lincoln brought suit to collect it. In referring to this—photographic copies of such proceedings being in Abraham Lincoln's own writing in his case *in assumpsit* against the Railroad, No. 1475—the brochure states: "It was intimated to Mr. Lincoln, however, that if he would bring suit for his bill in some court of competent jurisdiction, and judgment were rendered in his favor, the judgment would be paid without appeal." Thereupon he brought suit *in assumpsit* in the Circuit Court of McLean County at the April term, 1857. The case was tried by Lincoln before Judge David Davis (who afterwards was a Justice of the Supreme Court of the United States) as the presiding judge of the Circuit Court. The jury returned a verdict for Lincoln in the amount due in accordance with his claim, and judgment was rendered in his behalf. The judgment was entered on Tuesday, June 27, 1857.

It is most likely, as stated by the Railroad, that its then General Counsel had advised Lincoln that while he recognized the value of Lincoln's services, still, the payment of so large a fee without protest to a Western country lawyer would embarrass him with the Board of Directors in New York, who would not understand, as would a lawyer, the importance of the case and the consequent value of these services.

There appears in the brochure a photograph of Lincoln taken at the time he was an attorney for the Illinois Central Railroad in the early '50's, and some ten years before he left for Washington following his nomination for the Presidency. There also appears a photograph of the pass issued by the Railroad, No. 312C, dated December 1857, directing: "Pass Hon. A. Lincoln, Attorney for Company until December 31, 1858, unless otherwise ordered. Signed by J. C. Clark, Superintendent." The documents in possession of the Railroad indicate that passes

were issued to Lincoln during the '50's. In those days, a pass was issued to a lawyer when he was retained by the Railroad.

Lincoln's personal services as a surveyor and an attorney were rendered principally for the Railroad. From the time when his family came to Illinois in 1830 until he left for Washington to take the oath of office as President in 1861, he moved extensively about Illinois, first as a candidate for the Legislature and later as a member thereof, as a Congressman, and also as attorney for the Railroad. Thus, he became well known in many Illinois Central cities and towns. He handled various cases for the Railroad not only in the Illinois Eighth Judicial Circuit, but in the Supreme Court of the state. The knowledge that he had gained as a legislator made him unusually useful to the Railroad in several suits involving attempts to assess taxes by the state and by many of its counties. As stated above, the *McLean County* tax case is said to have been his most important legal victory. Indeed, Paul M. Angle, one of his biographers, speaks in his book of Lincoln's professional services for the Railroad as follows: "The Illinois Central may well be proud of Abraham Lincoln—not because he afterwards became President of the United States, but because as an attorney he served his client superlatively well."

It is generally agreed that the legal fees received by Lincoln from the Railroad enabled him to finance and carry on his increasing political activities in the state and the rest of the nation, including his important debates with Senator Stephen A. Douglas.* It is probable that these activities so effectively brought him to the attention of the people of the whole country that he was elected President. Also, it is likely that his public

* Allan Nevins, referring to the $5,000 fee that Lincoln received in the *McLean* tax case, wrote as follows: "The sum was important, for it enabled Lincoln the next year to drop his law business for the senatorial campaign. Still other important cases might be mentioned." *The Emergence of Lincoln,* Charles Scribner's Sons, p. 356. Nevins (*ibid.*, p. 356, fn. 14) also quotes from a speech made by Senator Douglas at Henry, Illinois, as reported in the *Chicago Daily Times* of October 5, 1858: "Can you Republicans deny that this day and this hour your candidate, Abraham Lincoln, is the agent and attorney of the Illinois Central Railroad, making stump speeches on its money? Can you deny that he received from the company a single fee of $5,000 for procuring a decree releasing its property from tax action in McLean County, thus taking the side of the company against the people whose votes he is now asking?"

activities in the early 1850's were a major factor in arousing the financial interests abroad and at home to grasp the opportunity, which they were first unwilling to take, to finance the construction of the Railroad and the development of the territory that it served.

LINCOLN AND POLITICS

STEPHEN A. DOUGLAS, "THE LITTLE GIANT" (1852-1860)

Although Lincoln differed greatly with Stephen A. Douglas on many matters, their debates served well the objective which they both cherished and incessantly strove to accomplish—the building of the Railroad and the development of Illinois and of Mid-America, the Valley of the Mississippi.

Claude G. Bowers, the historian and diplomat, writes thus of Douglas: "Stephen A. Douglas was one of the most majestic figures in American history. . . . He envisioned . . . the westward march of an adventurous people to the redemption of the wilderness. . . . It was his statesmanship that made States and Territories and ushered them into the council chamber of the nation; it was his prescience that planned the binding of the East and West with bands of steel, and it was he who led the way."

In recognition of Douglas's accomplishment in obtaining from the Federal Government an outright grant of land, instead of pre-emption rights, and a branch of the Illinois Central to Chicago, his tomb and monument overlooks the Railroad's tracks and yards along Michigan Avenue in Chicago. Part of the lake shore property constituting the Railroad's entrance to Chicago was owned by Senator Douglas. He sold the Railroad this right-of-way along the lake. He also gave several acres of his Oakenwald Estate to be used for a great seat of learning. His idea and generosity have contributed to the establishment of the University of Chicago.

Stephen A. Douglas was born at Brandon, Vermont, only a short distance from that respected liberal arts institution, Middlebury College, now 155 years old. His family had assisted in the founding of the privately supported college in 1800 and

had shared the work of hewing the logs and quarrying the stone for its first buildings. His youth was spent in this academic environment, which enabled him at the age of twenty years to make his way in the new world at Winchester, Illinois, notwithstanding that he arrived without funds and without employment awaiting him. His father died when Douglas was at an early age, leaving him penniless and without influential friends. But in his youth, spent in the intellectual atmosphere of the nearby college, he had become resourceful.

The impressions and learning derived from the years spent in those environs served him well as he sought his fortune by teaching school and practicing law in the wilderness of Illinois, and they may have had a considerable part in creating in him the idea of a seat of learning on Chicago's South Side.

Nearly 150 years after Douglas lived in Vermont, Middlebury College conferred its highest honor, the degree of Doctor of Laws, upon Wayne A. Johnston, the able President of the Railroad which Douglas had helped to bring into existence.

Douglas believed in the future of Chicago as a great industrial city and in the territory along the Railroad. He purchased from the Railroad some 6,000 acres of prairie and marshland in the vicinity of Lake Calumet, near Chicago. His action gave confidence to the Railroad's project for developing the region. Throughout the trying period of building the Charter Lines, Senator Douglas gave words of encouragement and instilled confidence in this, the largest project in railroad building and regional development that the country had witnessed up to that time.

As hereinbefore stated, in 1857 the country was experiencing a depression, and the outlook for the Railroad was so bad that President Osborn rushed to Europe to reassure the security holders. In the fall of 1858, the Auditor of the State of Illinois brought the suit herein described against the Railroad for the collection of taxes claimed to be due for 1857. The pendency of this suit and the Railroad's lack of available cash during the rapidly growing depression led the officers and Directors of the Railroad to make an assignment for the benefit of creditors to save the Company from the bankruptcy courts.

Lincoln's aid was enlisted to stave off the state's tax suit, and he assisted in keeping the Railroad functioning as its attorney in this matter.

During this anxious period, the great debates between Lincoln and Douglas occurred. On July 9, 1858, 30,000 people heard Douglas at the Fremont House on Lake Street, Chicago, reply to a recent speech delivered by Lincoln. This reply preceded a series of debates held in the principal cities of Illinois. Special Illinois Central trains were run from Chicago to Galena and Springfield and from other points to cities and towns where from July to November the debates were held. The earnings of the Railroad vastly improved, and Lincoln restored confidence in its future. Also, the financial condition of the Railroad was vastly improved by Lincoln's success in the Supreme Court of Illinois in the above-described tax case, the importance of which cannot be overemphasized. Its decision in March 1860 held with Lincoln's contention that the valuation of the Illinois Central for purposes of taxation should be made on the same basis as that of other railroads in the state. This victory was a turning point for Lincoln and the Illinois Central. The Court confirmed the contention that the Railroad's Charter tax payments amounting to 7% of its gross revenues were all that were lawfully due the state. Charles LeRoy Brown, a Chicago lawyer who studied the case, has said: "Measured by money involved, this service was by far the most important of Lincoln's legal services. Measured by the obstacles to be surmounted, those services were remarkable. . . . The decision rescued the Company from foreclosure and financial collapse. Had the Illinois Central failed in 1860, it would have been disastrous to the State of Illinois. No re-organized corporation would have agreed to pay the so-called seven per cent charter tax."

One of Lincoln's questions to Douglas in the debates was: "Can the people of a United States territory, in a lawful way . . . exclude slavery from its limits prior to the formation of a State Constitution?" Douglas's forthright reply—"In my opinion the people of a territory . . . have the lawful means to introduce slavery or exclude it as they please, for the reason that slavery cannot exist a day or an hour anywhere unless it is supported

by local police regulations"—had the result of splitting the Democratic Party and thus bringing about the election of Lincoln as President of the United States.

While attorney for the Railroad, Lincoln had many close friends among the officers of the Railroad and elsewhere in its organization. Many actively supported his candidacy. These Illinois Central associations trained and conditioned him for leadership and assisted him in reaching the high office of President.

President William McKinley recognized this when he said of Lincoln: "The best training he had for the Presidency, after all, was his twenty-three years' arduous experience as a lawyer traveling in the circuit of his district and state. . . . Here he met in forensic conflict . . . some of the most powerful legal minds of the West."

Lincoln also came to know and trust George B. McClellan, the Chief Engineer and Vice President of the Illinois Central from 1857 to 1860. McClellan was in command of the Ohio Volunteers, and he later earned military laurels in the West Virginia Campaign. As President of the United States, Lincoln gave McClellan in 1861 the command of the Army of the Potomac and later the command of the entire United States Army.

General McClellan earlier had come to the attention of the officers and Directors of the Illinois Central when they had seen the report of the survey which Jefferson Davis, then Secretary of War, had arranged for McClellan to make in order to locate the most feasible railroad route between the Mississippi River and Oregon.

The Illinois Central owes much to General McClellan, and he owed much to Abraham Lincoln and the Railroad. In the depression of 1857-1858, when the credit of the Railroad was at its lowest point, it was McClellan's economical operation and his ingenuity in providing traffic by hauling ice from between the railroad trestle and breakwater at Chicago to the larger towns in southern Illinois that enabled him to meet the Railroad's payroll and saved the Railroad from financial disaster.

No railroad in the country provided more high-ranking officers both for the Union Army and for the Confederate Army.

ILLINOIS CENTRAL CIVIL WAR TROOP TRAIN

In addition to McClellan, the list of Illinois Central men who occupied places of great responsibility in the Union Army includes, among many others, Generals Burnside, Banks, Dodge, Logan, Stuart, Wyman, and Turchin.

Equally distinguished generals and other officers came from many of the railroads in the South, below the Mason and Dixon Line. They were officers and directors of small railroads that had been built by cotton farmers and others. These lines, many years later, were acquired and merged into the Illinois Central System. Perhaps the most distinguished of these Confederate officers was General P. G. T. Beauregard, who manifested a great respect for Abraham Lincoln, as recorded by Professor T. Harry Williams in the Southern Biography Series, published by the Louisiana State University Press. General Beauregard, at the end of his distinguished career, wrote, in expressing his regret that he could not accept the invitation of the president of the Lincoln Memorial League to participate in ceremonies honoring Abraham Lincoln at Springfield, that he would be present in spirit to pay homage "to the memory of a great and a good man." In this communication, in referring to Lincoln, he said, "At his untimely taking off, his life was invaluable; a proud people had suffered humiliation. His life was of extraordinary importance to the country he served so well, with a clear intellect—and loved so profoundly, with a big and guileless heart."*

The list of railroad officers who served the Army of the Confederacy is a long and distinguished one. Among them is General Smith, who had been a director of one of the southern railroads, and another was Judah P. Benjamin, successively Attorney General, Secretary of War, and Secretary of State in the Confederate Cabinet, who had been a director and General Counsel of the southern lines of what came to be known as the Illinois Central System.

The Railroad also furnished many of its skilled workers to build gunboats and other craft for the Navy at Mound City, near Cairo, and elsewhere.

*This communication is to be found in the Lincoln Memorial League Papers of the Illinois State Historical Library, Springfield, in a letter written by General Beauregard to R. B. Hoover, April 5, 1889.

From the beginning to the very end of the conflict between the North and South, the Illinois Central, and the railroads in the South which later became part of the Illinois Central System, not only contributed distinguished leaders to both sides, but moved crowded troop trains and supplies. Indeed, the first troop train to move was an Illinois Central train.

Howard Gray Brownson, the historian, has this to say: "The Illinois Central was of incalculable value to the country during the Civil War. The least important service was the reduced rates for troops and supplies. Of far greater influence was the fact that such troops and supplies could be transported at all. . . . Had it not been for the Illinois Central, the vast resources of the Central West could not have been placed at the disposal of the Government as easily as they were, the operations of the Army would have been hampered and restricted, and the ultimate success of the national cause delayed that much."

The experience of the Illinois Central as a defense agency of first importance to the Government should always be remembered. In dealing with our railroads as to rates, as to competition with other transportation agencies, and as to maintenance of sound financial structures, our people, including our legislative bodies, both Federal and state, should preserve and strengthen them as our most effective private agency for national defense.*

* President Eisenhower is to be commended in having appointed recently a committee at Cabinet level to deal with the problem of strengthening the railroads' competitive position. Such appointment is responsive to a growing realization that for some time railroad transportation has not been a monopoly, but has been highly competitive with airlines carrying not only passengers but also freight, with large truck companies, and with barge lines and other water transportation. The situation no longer requires the fixing of rates for railroad transportation lines, as was thought necessary, on the basis of monopoly, at the time of the passage of the Interstate Commerce Act and the creation of the Interstate Commerce Commission as the governmental agency to regulate the railroad companies.

It has become abundantly clear that there has occurred in America a revolution in the field of transportation. Our economy has in every respect been affected by this revolution.

Undue burdens have been placed upon the taxpayer, the investor, the shipper, and the ultimate consumer. During the latter part of the last century, and as late as three decades ago, it was apparent that the railroads of the country had a virtual monopoly in transportation between our cities, with the exception of cities served by water transport. Today, transport methods include movement

of goods and people not only by rail, but by air and by water. The shipper has the wide selection he should have. The interest of all the people requires that we substitute, for the purely rail transport, transportation by rail, by air, and by water, and that the different methods of transport be correlated with and supplement each other. This is essential in the important contribution of transportation companies to the defense of the country in time of war and to its prosperity in time of peace. The shipper and the traveler should have the freedom of election as to the use of our transportation systems, whether by truck on our highways, by rail, by air freight carriers, or by a combination of these methods of transportation. There should be physically integrated systems of transport. These systems should include our vast rail facilities, pipelines, coastal and intercoastal waterways, inland water transportation, and the rapidly growing air services carrying cargo and passengers. This should be possible, and the necessary legislative and other action should be taken so that the result will be a competitive system of transportation that includes all forms of transport and that eliminates the monopoly element formerly characteristic of our transport system.

Mass production has been a fundamental of our increasing national economy, as has also the distribution of products not only throughout the continental market, but to the international markets. This cannot be successfully maintained and expanded unless there is dynamic and efficient transportation through all of the modern forms that have developed, particularly during the last quarter of a century. There must be expedition; there must be safety; and there must be primarily a dependable form of transport at a reasonable cost in terms of manpower and money. Rates should be determined on the basis of fair compensation and not fixed to restrain a monopoly which no longer exists. The policy of our legislators and of our rate-making bodies has been one that has not been helpful to the best development of our economy and the best service to all of our people.

An appreciation of the fundamentals involved was had when all the people recognized that the government, through land grants and otherwise, had a great responsibility and even a duty to develop undeveloped areas in our vast territory. This is the story of the improvement policies of Abraham Lincoln, of Senator Douglas, and of many others, as set forth above. The time has come when a new emphasis should be given, and those things done in the best interests of all classes of people that will realistically bring about a revolution in the right direction to improve the transportation of our country, that will result in an economic growth and a public service that can only be brought about in this manner.

The necessity for such relief is more and more recognized by the public. The realization of the necessity to deal fairly with the railroads is found in the underlying criticism of the recent proposal of the Congress for a $101,000,000,000 highway construction program to be carried out over the next ten years.

The public interest requires that there be a better understanding and treatment of the railroads, which have so well served the public interest and the country in times of war as well as in times of peace.

The combined investment in our railroads during a period of a century and a quarter represents approximately $35,000,000,000, or only about a third of the enormous sum proposed for highway developments. This highway proposal deserves more serious study. It obviously puts our Federal Government into the business of constructing highways, the greater part of the cost of which would eventually come out of the taxes paid by the general public, our industrial and other corporations, and the railroads.

It must have been with the greatest of satisfaction that while he was an attorney for the Illinois Central Railroad Abraham Lincoln participated in the change from sparsely populated prairie and woodlands to a relatively highly developed agricultural territory and the beginning of what was later to be a highly industrialized territory. Relatively few people inhabited the State of Illinois when the construction of the Railroad began. During its construction, many thousands of workmen were brought into the territory. They came from New England, New York, Ohio, Virginia, Kentucky, Ireland, Germany, Scandinavia, Denmark, and Poland. The Railroad, through its Chief Engineer, Colonel R. B. Mason, recruited many workmen in Europe. As a result of this effort, 1,000 men came directly from Ireland. Many cargoes of rail and iron were brought across the Atlantic. Not only the primitive conditions had to be contended with, but fevers and other illnesses as well.

GROWTH OF ILLINOIS DUE TO THE RAILROAD (1852-1860)

As soon as the Railroad was completed, it operated many excursions which helped greatly in the settlement and development of the territory. The newcomers required police protection greater than that which could be supplied by local authorities. Other railroads similarly suffered. A man who was to become famous as a detective, Allan Pinkerton, a Scotsman, was engaged on February 1, 1855. He established a police agency at Chicago which was primarily devoted to the service of the Illinois Central. As a result of his acquaintance with Lincoln during this trying period, he accompanied the President-elect to Washington for the inauguration and there founded and headed the United States Secret Service, which functioned so successfully that Pinkerton became world-famous.

The "Charter Lines" were completed in less than five years from the date that they were started. Along with the construction of the Railroad went the construction of telegraph lines on its right-of-way. These were used not only for the purpose of the Railroad, but for the public generally. Thus was formed,

with the assistance of the inventor, Samuel F. B. Morse, the Illinois Central Telegraph Company, which built telegraph lines the entire length of the Railroad. The success of the telegraph line in the operation of trains is shown by the statement attributed to Colonel Mason that he "infinitely preferred a single-track with a telegraph to a double-track without it."

During this formative period, the Illinois Central operated the first sleeping cars ever used in the West. They carried to the new region from long distances Indians and men in frontier costumes. During the same period, the steam locomotive went through many changes. Its power was greatly increased. Instead of burning wood, the Illinois Central at its Paducah, Kentucky, shops and elsewhere changed the mechanism so that it would burn coal. This effort began early in 1855, and within a short time the fuel of the locomotive was changed from wood to coal. As a result of this very important accomplishment, the coal lands in southern Illinois and western Kentucky rapidly began to be developed, and the coal industry has continued to be one of the greatest traffic assets of the Illinois Central. The Railroad employed an eminent geologist, John W. Foster, to assist in the development of coal beginning in 1853.

As a result of these forward movements in settling land and developing industries in the territory in the decade between 1850 and 1860, the improved acreage increased enormously. So did the population. Many farms were opened up along the line of the Railroad. In this same decade, the population of the counties through which the Railroad ran increased over 150% in contrast with the 52% increase elsewhere in Illinois where there was no railroad. The value of farm lands in these counties rose from less than $100,000,000 to over $400,000,000.

In this single decade, the territory served by the Illinois Central in Illinois established the state as the leading corn- and wheat-producing state in the Union, and second in the value of livestock.

Whereas the mineral resources of Illinois were quite undeveloped in 1850, they became of tremendous importance, particularly the lead mines near Galena and the coal mines in the

vicinity of East St. Louis. This was the beginning of a great transformation of a vast area which had been quite unproductive as a prairie wilderness into a territory of unusually active agricultural and industrial importance.

As early as 1857, not only was the Illinois Central the world's longest railroad under one management, but it was recognized as the best-built and best-equipped railroad in the Central West. At that time, the Railroad represented an investment of $21,500,000, or only a little more than $30,000 a mile. At that time too, there were only 140,340 shares of stock outstanding, in respect to which only $3,500,000 had been paid. The funded debt was under $20,000,000, and it was divided into obligations some of which bore interest at the rate of 6% and others of which bore interest at the rate of 7%. The floating debt of the Railroad was only a little over $3,000,000. A large part of this debt was held abroad, where the first Construction Bonds were sold. The English holders of the Railroad's securities had a powerful influence in its affairs. Some of the most outstanding men in England were the holders of these shares, men like Richard Cobden, William Gladstone, William Peel, Alexander Haldane, and Stephen Cunard. It is significant that notwithstanding the business depression in 1857, Illinois Central stock was selling at $120 a share in the open market, and the Company's Bonds were selling at par or better. The *American Railroad Journal* at that time stated: "No other Company enjoyed the unlimited confidence of money lenders of England and America to the same extent."

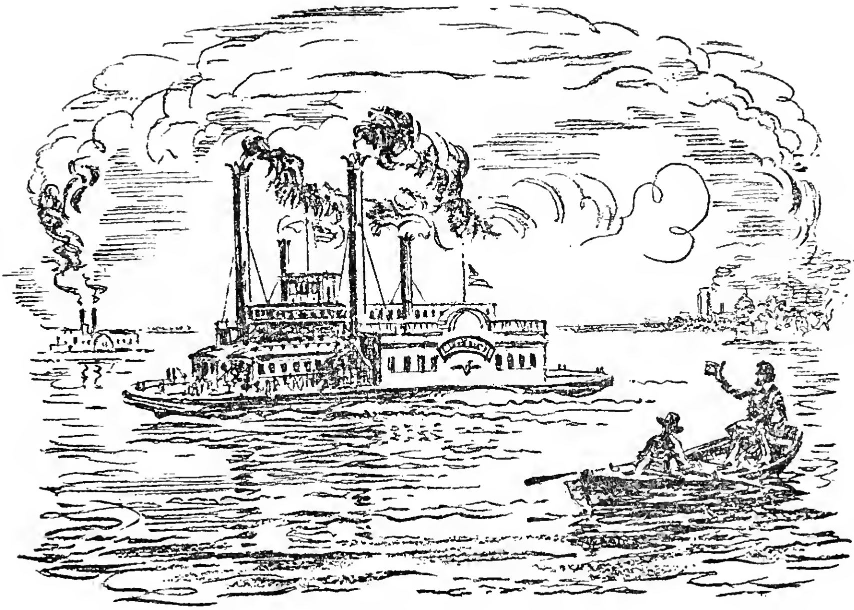
Beginning in 1858, in order to move traffic from the Charter Lines and other lines in the North to the South and to the port of New Orleans, it was necessary to utilize steamboats and steam packets on the Mississippi River, particularly at the Cairo inlet until the opening of the Cairo bridge on October 29, 1889. In the early part of 1858, a contract was entered into with a group of steamboat owners operating to and from St. Louis for the establishment of an "Illinois Central Line" of packets to handle through passenger and freight business between Cairo and New Orleans as well as to and from Memphis, Vicksburg, and other principal river ports. Among others who obtained a job

on the new Illinois Central Line of packets was Samuel Clemens of Hannibal, Missouri, who later of course wrote under the name of Mark Twain. For two years—1859 and 1860—he piloted the famous river packets "Crescent City" and "New Falls City."

Vice President McClellan, who brought about this combination of rail and river transportation, became interested in the possibility of trade through the port of New Orleans with Latin America. He was the first officer of the Company to take definite steps toward the development of trade beyond the borders of the United States. Since that time, the Railroad has sent its trade representatives not only to South America, but more recently to South Africa.

In furtherance of the use of steamboats on the Mississippi River to expedite service in conjunction with the rail traffic, the Railroad undertook the replacement of ferry service through the construction of bridges. The first bridge constructed was at Dubuque, Iowa. The Railroad was the first in the United States to receive authority from the Federal Government to span the Mississippi River. This authority was granted in an Act of 1850. The construction of this bridge became a matter of great public interest. It is said to have cost more than $1,000,000 and involved the building, on the Illinois side, of an enormous tunnel. The contract for its construction was with the Keystone Bridge Company, whose President was Andrew Carnegie. Carnegie had started his career as a railroad superintendent, incidentally. Traffic moved over bridges spanning the Mississippi and partly by steam packet on the river and the railroads constructed to the north and south of Cairo until the Cairo extension was completed, when through passenger and freight train service was established between Chicago and New Orleans. This service involved the linking up of the many lines built in the southern states with the many lines constructed first in Illinois and later in the states surrounding it. Among the southern lines which were thus connected was the first railroad built in the Mississippi Valley, the West Feliciana Railroad.

As a result of the joining of these lines, the industrial and agricultural development of the Mississippi Valley rapidly increased. This was the beginning of the great industrial growth



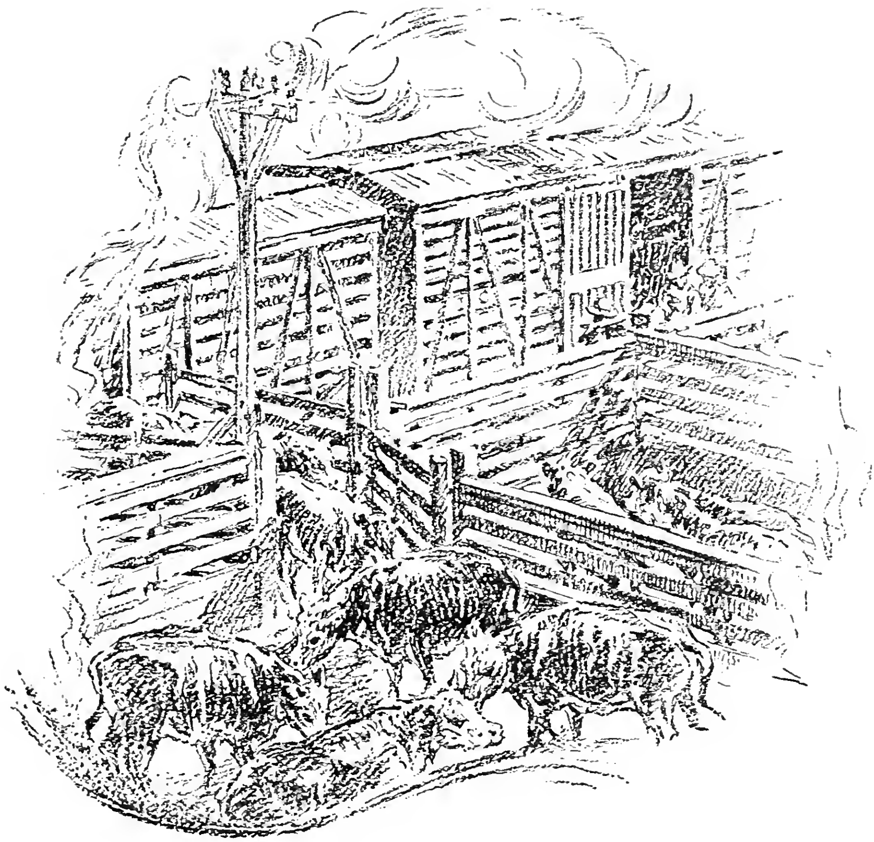
MARK TWAIN'S MISSISSIPPI RIVER PACKET

in the important cities served by the western lines, such as the Sioux City western lines, in the areas where livestock and agricultural products had been greatly increased. Thus Waterloo and Sioux City, Iowa, and Omaha, Nebraska, became livestock and meat-packing centers. Cedar Rapids, Iowa, became a center for the manufacture of cereal products and other articles, as did Indianapolis and St. Louis. The industrial development in Louisville, Memphis, and Jackson, Mississippi, has been very impressive, as has the growth of the steel and iron industry at Birmingham, Alabama, and the cotton and lumber products industry at Vicksburg. Through lease lines, Shreveport has served the great oil refineries of Louisiana and Texas; and Baton Rouge, often called "the Cradle of Synthetic Rubber," and a center for petroleum products and aluminum products, has reached a development perhaps greater than that of any other city of its character in this country. More recently, great chemical centers have been developed and served by the Railroad, particularly the one at Calvert City, Kentucky.

Thus, it has come about that the industrial development that Abraham Lincoln and his associates dreamed of, in the early days of the construction of the Railroad and the growth of the territory that it served, has been realized. In fact, their hopes have probably been surpassed. Throughout the 1830's, '40's, and '50's, and until Lincoln was called to his greatest service at Washington, he contributed greatly, as attorney for the Illinois Central and as a political leader, to this development.

The great variety of the development was possible only because of the rapid construction of the Illinois Central. The history of railroad construction is the history of a great deal of legal activity dealing with questions of right-of-way, trespass, property damage, and related controversies. The Illinois Central experience followed the general pattern.

Lincoln's first right-of-way court action case was tried by him as counsel for the Railroad on April 16, 1853. He was associated with the local attorney for the Railroad, General Asahel Gridley. Many such suits were brought against the Railroad. Lincoln's activity as attorney for the Railroad is shown by his letter of September 23, 1854, addressed to Company Solicitor Mason



THE RAILROAD'S CONTRIBUTION TO THE LIVE STOCK INDUSTRY

Brayman, notifying the Solicitor that he was drawing on the Company for $100. In his letter, Lincoln stated: "The reason I have taken this liberty is that since last fall, by your request, I have declined all new business against the road, and out of which I suppose I could have realized several hundred dollars. Have attended, both at DeWitt and here, to a great variety of little business for the Company, most of which, however, remains unfinished, and [I] have received nothing. I wish now to be charged with this sum, to be taken into account on settlement."

It is apparent that Lincoln continued to be actively engaged, if not exclusively so, in similar work for the Railroad, since on September 14, 1855, he wrote as follows to James F. Joy, the General Counsel of the Railroad: "I have today drawn on you in favor of the McLean County Bank . . . for $150. This is intended as a fee for all service done by me for the Illinois Central Railroad since last September within the counties of McLean and De Witt. Within that time . . . I have assisted for the Road in at least fifteen cases (I believe one or two more) and I have concluded to lump them off at ten dollars a case."

Particularly during the middle '50's, the growth and industrial development of Illinois was tremendous. The building of the Railroad was heralded at home and abroad. Experienced writers and advertising men were employed by the Railroad, among them Augustus Dickens, brother of Charles Dickens. Pamphlets were prepared, as well as newspaper and magazine articles, describing the resources, advantages, and agricultural and industrial opportunities of the territory through which the Illinois Central Railroad was being constructed.

There appeared in the *Memphis Daily Appeal* in 1857 the following: ". . . the great Illinois Central Railroad . . . with ten thousand placards . . . stuck in every hotel, barroom, steamboat, and barbershop, in all colors and shapes, and with advertisements and agencies, high and low, . . . is making more noise at present than perhaps any other road in the Union."

In response to this publicity there came from New England and the Middle Atlantic states many young men who also heeded the advice of Horace Greeley, one of the founders of

the Republican Party, the foremost anti-slavery leader, and a man who is credited with having greatly assisted in the election of Lincoln as President. Greeley's advice to the youth of America during this period was "Go west, young man."*

Among the large number of young men who were later to become the leaders in the industrial and agricultural activities in the newly opened area was Leslie Ernest Sunderland, the inventor of the tapered barrel stave and later of barbed wire.

Following his invention of a tapered barrel stave to replace the uncertain straight hogshead stave, an invention which enabled the barrel to utilize the forces resulting from the tapered character of the stave better to transport turpentine and other products of the forest and of agriculture, he went to Joliet, Illinois. There he built a factory which was the forerunner of several factories on the east side of the Mississippi River, the last one near Baton Rouge, Louisiana, on the line of the West Feliciana Railroad, which was later to become a part of the Illinois Central System.

The invention was the result of experiments conducted at Green Springs Plantation on the James River in Virginia, where the inventor was in charge of a large sawmill operation employing some 300 Negro workers. Although at that time the slaves had not been freed by Lincoln, the inventor treated them as free men by reason of his admiration of the position taken by Lincoln. This led to his being particularly interested in moving west, where Lincoln was carrying on his activities in behalf of the freedom of slave labor. The inventor saw the possibilities of the timbered area in Illinois and the Mississippi Valley through which it was proposed that the Railroad be constructed. It is significant that Sunderland, although in the South, enlisted in the Union Army at a small town near Baton Rouge, and thereafter went north to participate as a soldier in the support of Lincoln and the Union.

During his development of these manufacturing plants, Sunderland had occasion to visit the great areas to the west of the

* Greeley found this expression in an article by J. B. L. Soule in the *Terre Haute Express*. See John Bartlett, *Familiar Quotations*, 12th edn., ed. Christopher Morley, Little, Brown, 1950, p. 505.

Mississippi River, and, being impressed with the lack of materials for building fences, which he had been accustomed to see in New England, such as timber for rail fences or stone for stone-wall fences, and having made a financial success of his tapered barrel stave factories, he turned his inventive skill to the development of barbed wire to be used to fence the fertile areas, in order that they might be protected from roving cattle and horses sufficiently to be tilled for wheat and other cereal crops. This was a great boon not only to the development of industrial plants for the manufacture of barbed wire, but also to the production of wheat and other cereals, which greatly increased the traffic of the railroads. Among the first barbed wire mills was the one at Oskaloosa, Iowa, and the last barbed wire mill was being completed when the inventor met his untimely death at Great Bend, Kansas. Subsequently, the patents for the barrel stave and barbed wire were acquired by large corporations, which had a very important influence on the industrial and agricultural development of the territory, in the Mississippi Valley particularly. These tapered barrel stave and barbed wire developments were some of the many that followed in the wake of the railroad.

During this period and subsequently, the Railroad was privileged to be under the direction of great industrial and railroad leaders, among whom were Robert Schuyler, who had been the President of the New York & New Haven and three other railroads, and who was known as America's first "Railroad King"; Robert Rantoul, Jr., Massachusetts statesman and law associate of Daniel Webster, and successor to Webster in the United States Senate; Gouverneur Morris of New York, banker and railway promoter, and the son of Gouverneur Morris of Revolutionary fame; William H. Aspinwall, New York merchant, steamship operator, builder, and first President of the Panama Railroad; and Henry Grunnell, New York merchant and chief backer of Arctic expeditions.

The leadership of these men and a long list of others was later carried on by such outstanding industrial and railroad figures as William H. Osborn, John M. Douglas, and Judge Sidney Breese.

As the Railroad grew, not only in the North but in the South, many financial leaders in England and this country supported its development. Some years later, the work of these early leaders was carried on by John Newell, a native of Newburyport, Massachusetts, who had worked with Colonel Mason's engineers in 1852, and who advanced to the positions of Vice President in 1869 and President in 1871. Newell's successor as President was Wilson G. Hunt, who had been associated with Samuel F. B. Morse, Cyrus W. Field, Peter Cooper, and Abram S. Hewitt in the early development of the American telegraph system and the laying of the first Atlantic cable.

It is significant that Hunt was one of the original trustees of Cooper Institute of New York, where Abraham Lincoln made his first great speech in the East. Hunt had been, prior to his election as President, a Director of the Illinois Central Railroad for some years.

Later, the work of these leaders was taken over by Stuyvesant Fish, the son of Hamilton Fish, Secretary of State in the Cabinet of President Grant. Grant's association with the Illinois Central and General McClellan's were such that General Meade is reported to have said, "Had there been no McClellan, there would have been no Grant."

Among the members of the Board of Directors of the Railroad serving with Stuyvesant Fish was Edward H. Harriman, who was to be succeeded as a member of the Board and Chairman of the Executive Committee thereof by his son, W. Averell Harriman, the present Governor of the State of New York. Through the younger Harriman's influence and leadership, in association with Eugene W. Stetson, the headquarters of the Railroad was moved from New York City to Chicago, and the personnel of the Board of Directors changed to include industrialists and leaders from cities located on the line of the Railroad.

Thus was stimulated the great industrial development which was begun during the period when Abraham Lincoln, as attorney, was actively assisting in its development.

The accomplishments of this development might have been otherwise had Lincoln been willing to be diverted from his

service to the Railroad and to the community that it served. The temptation to give up his services as a lawyer to the Railroad and his political activities came to him following his Cooper Institute speech in New York. His reputation as a railroad lawyer while acting for the Illinois Central attracted the attention of Erasmus Corning, President of the powerful New York Central Railroad System. Corning's cousin and a friend of Lincoln's, James B. Merwin, is reported to have brought about a conference with Lincoln the morning following his Cooper Institute address. During it, Corning is said to have offered Lincoln the position of General Counsel for the New York Central Railroad System at a salary of $10,000. Lincoln's comment was the question, What could he do with $10,000? It is reported that after seriously considering the matter for some days, he refused this tempting offer. Thus, Abraham Lincoln put the service to his fellow men and his country ahead of his personal fortunes. Had he not refused this offer, the history of this country would be very different. After making this great and fateful decision, Lincoln continued the practice of law as attorney for the Illinois Central and his political activities, which gained him the greatest honor that any citizen could receive, the Presidency of the United States.*

* Abraham Lincoln thus put service to his fellow man first. This not only was characteristic of his life but explains his many accomplishments. It was characteristic also of his fellow leaders and of the leaders of the generation of his parents. Such services were not uncommon among these generations. They set the pattern for future generations in the development of our country. Such leaders placed first the development of the community in which they lived and after that their own comforts and interests. These services were rendered as the result of great sacrifices and explained the strong, virile character of the people who made America possible, and great men like Lincoln and Stephen A. Douglas set the example which not only was followed by the leaders of their generation but now is being followed by the leaders in the professions and in the business enterprises of today.

The freedoms that they succeeded in obtaining for themselves and others, that were greatly cherished, and that were passed on have been aptly described as the four principal freedoms:

1. Service and sacrifice
2. Thrift and economy
3. Pay as you go
4. Right to work

Abraham Lincoln's reputation as a lawyer was an enviable one and aroused the acclaim of the leaders of the Bench and Bar.

The late Joseph H. Choate, when Ambassador to the Court of St. James,

In a conversation on topics relating to the Civil War, Eugene Delano related an incident in illustration of Lincoln's magnanimity, which he was told by the late Francis Lynde Stetson, a friend of Burlingame's and the late senior member of the New York law firm of Stetson Jennings and Russell, of which firm Grover Cleveland was a partner for the four-year period intervening between his two terms as President of the United States. The name of this firm was later changed to its present name of Davis, Polk, Wardwell, Sunderland & Kiendl.

Some three months after Lincoln's inauguration, Burlingame called at the White House in the evening on a friendly visit. The President appeared depressed and discouraged. Finally, Burlingame said, "Mr. President, there is something troubling you. What is it?" "Yes," replied Lincoln, "I am troubled. The South is united and the North is divided. Unless the North can be united, this contest is hopeless for them. There is only one man who can unite them." "And who is he?" Burlingame inquired. "Stephen A. Douglas," replied the President, impressively, "and I want you to see him and repeat my words to him."

Burlingame said he often met Douglas and on the next occasion would make a point of repeating the conversation—probably within a day or two. "No," said the President, "that will not do. I want you to see him now." "But it is eleven o'clock already," Burlingame protested. "No matter, see him tonight," was the reply.

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delivered an address on Lincoln's career before the Edinburgh Philosophical Institute, on November 13, 1900, stating:

"I lay great stress on Lincoln's career as a lawyer—much more than his biographers do—because in America a state of things exists wholly different from that which prevails in Great Britain. The profession of the law always has been—and is to this day—the principal avenue to public life; and I am sure that his training and experience in the Courts had much to do with the development of those forces of intellect and character which he soon displayed on a broader arena.

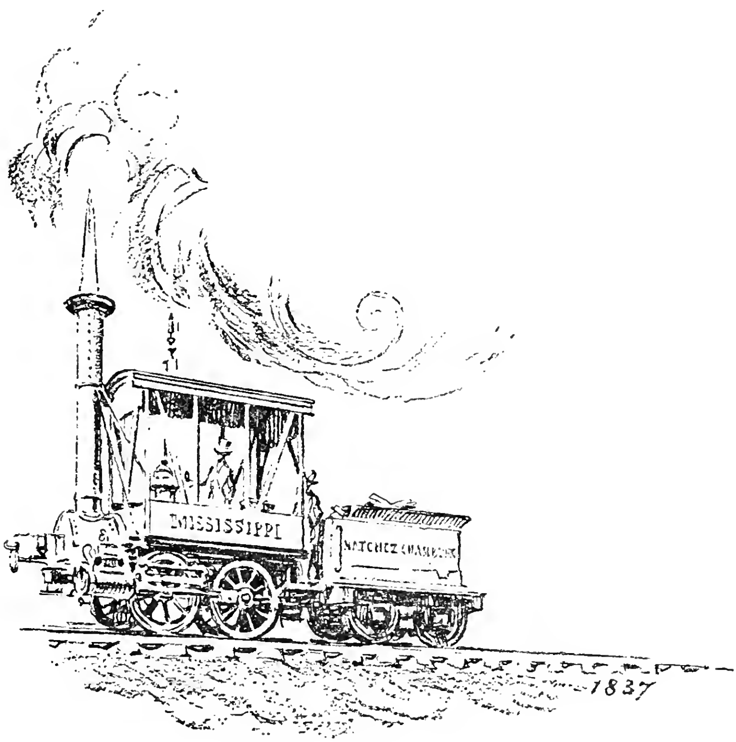
"It was in political controversy, of course, that he acquired his wide reputation, and made his deep and lasting impression upon the people of what had now become the powerful State of Illinois, and upon the people of the Great West; to whom the political power and control of the United States were already surely and swiftly passing from the older Eastern States. It was his reputation and this impression and the familiar knowledge of his character which had come to them from his local leadership that happily inspired the people of the West to present him as their candidate, and to press him upon the Republican Convention of 1860, as the fit and necessary leader in the struggle for life which was before the Nation."

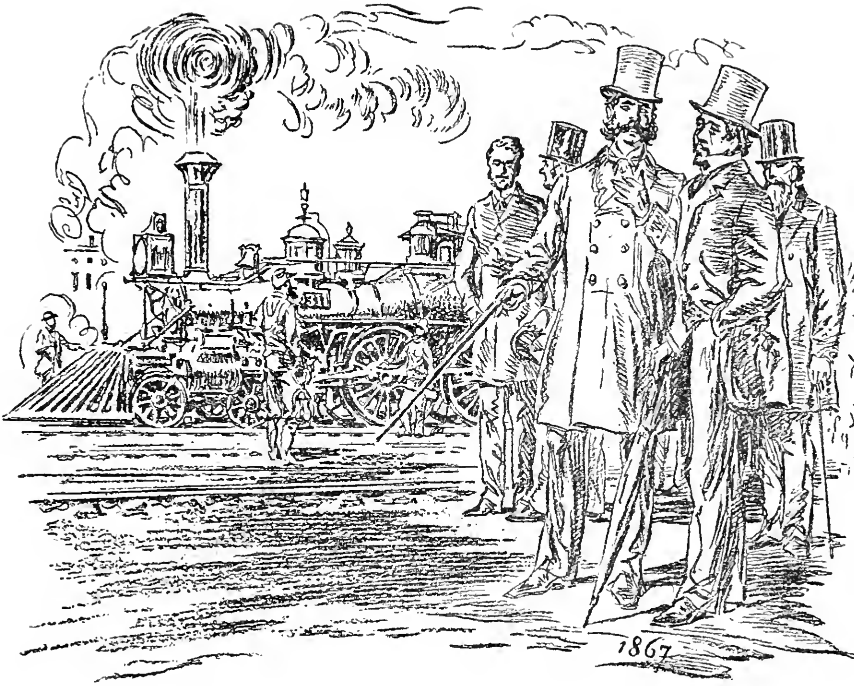
Impressed by his manner, Burlingame went off and found himself at midnight ringing the doorbell at Douglas's house. After some parley at the window, and recognition of his nocturnal visitor, Douglas admitted him and they entered his library. In a few words, Burlingame explained the situation and then repeated the President's words. Douglas was silent for a moment; then he raised his arm and brought his clenched fist down with a bang on the table. "By God, I'll do it!" he said. Afterwards, he made his famous speech which created the party of War Democrats.

Lincoln's service to the country was prematurely ended by an assassin's bullet on Good Friday, April 14, 1865. The last tribute of the Railroad to its former attorney and policy maker was the flag-draped funeral train which brought Lincoln's mortal remains on the historic journey past thousands of silent and tearful mourners from the Capitol at Washington, D.C., to his modest, grief-stricken home in Springfield, Illinois. His remains were brought to lie in state in the Capitol at Springfield, where the funeral service was held on Tuesday, May 2, 1865. The funeral service was very simple. The eulogy for "the Man of the Ages" ended with Lincoln's own words, spoken in his second inaugural address. At that time, he was unquestionably thinking of the war as finished and had no hatred of the vanquished in his soul, but rather a passion for a united country which he loved: "With malice toward none, with charity for all, with firmness in the right, as God gives us to see the right, let us strive on to finish the work we are in; to bind up the nation's wounds; to care for him who shall have borne the battle, and for his widow and for his orphan; to do all which may achieve and cherish a just and lasting peace among ourselves and with all nations."

PART II

THE EXPANSION OF THE RAILROAD INTO THE ILLINOIS CENTRAL SYSTEM





JUST as in the states on the eastern seaboard numerous relatively short railroads had grown up in the 1830's and 1840's, so in the 1840's and 1850's many such railroads grew up in the states west of the Allegheny Mountains, including those along the Mississippi River. With the completion of these relatively short railroads in the Mid-West, competition became acute because of the freedom which existed for building without any real limitations by the states of incorporation. One of the chief means resorted to by companies to protect themselves from the effects of the competition was consolidation, merger, or lease of rival and tributary lines. The discovery of gold in California also led to the construction of long lines from the Mid-West to California—which in turn led to further competition and resultant consolidations. In the 1860's, this trend was noticeable, and many of the large systems were beginning to take shape, so that by 1869 the following had acquired considerable mileage: the Chicago & Northwestern, 1,300; the Milwaukee & St. Paul, 1,000; the Pennsylvania, 2,400; the

Reading, 1,150; and the New York Central & Hudson River, 1,000.

Consistent with this trend, one of the early actions of the Illinois Central beyond the construction of its original Charter Lines was to lease the Dubuque & Sioux City Railroad, which had been incorporated so that a railroad could be built from Dubuque—across the Mississippi from Dunleith, Illinois, the northern terminus of the Illinois Central's lines—to Sioux City.

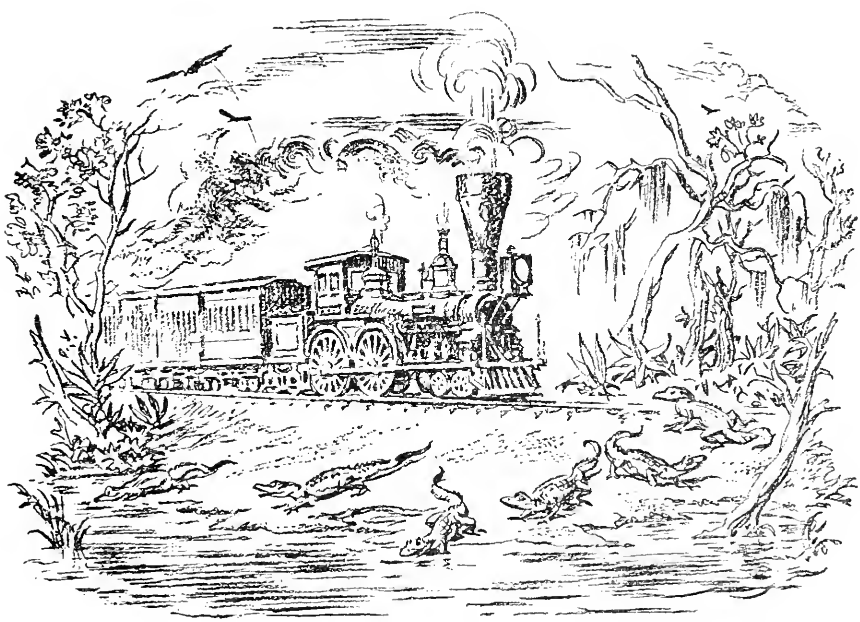
To facilitate the financing and construction of the westerly extension of the Dubuque & Sioux City Railroad from Iowa Falls, Iowa, a land grant had been secured and a subsidiary, the Iowa Falls & Sioux City Railroad Company, had been incorporated to build from Iowa Falls west to Sioux City.

On September 27, 1866, the Dubuque & Sioux City Company had leased the Cedar Falls & Minnesota Railroad, extending from Cedar Falls, Iowa, to the Minnesota border, a line planned to be 76 miles long, 14 miles of which had been completed. On September 13, 1867, the Dubuque & Sioux City Company leased its railroad to the Illinois Central for twenty years and the latter also assumed the lease of the Cedar Falls & Minnesota Railroad. As in the case of the Illinois Central, the Dubuque & Sioux City had raised money by the sale of First Mortgage Bonds and Construction Bonds.

By 1871, the Iowa Falls & Sioux City line was completed. A bridge over the Mississippi connecting Dunleith and Dubuque had been finished on January 1, 1869, so that there was a continuous line of railroad operated by the Illinois Central west to Sioux City. It is interesting to note that no direct connection between Chicago and Dubuque was built by the Illinois Central until it was done as an incident to the construction started in 1887 of a railroad from Chicago to Freeport with a branch to Dodgeville and Madison, Wisconsin.

In 1870, the construction of a railroad by the Illinois Central from Cairo, Illinois, to Columbus, Kentucky, a distance of 24 miles, was proposed in order to connect with the Mobile & Ohio Railroad and through that line with the southern roads generally.

In the meantime, several southern roads had been constructed running north from New Orleans through Jackson, Mississippi, and Memphis, Tennessee, and connecting other cities in Mississippi, Louisiana, and Tennessee. In 1873, the Illinois Central extended its influence over 547 miles of road southward from the Ohio River at Cairo to New Orleans, through agreement with the Mississippi Central and the New Orleans, Jackson & Great Northern. The latter was chartered in 1852, and its line from New Orleans to Canton, Mississippi, 206 miles in length, was opened in 1859. The Mississippi Central was chartered by the States of Mississippi and Tennessee in 1852. Its line was opened from Canton to Jackson, Tennessee, in 1860 and extended to the Ohio River opposite Cairo in 1873, making its total length 343 miles. Both of these roads were reorganized in 1877 and as reorganized were merged on November 8, 1877, into the Chicago, St. Louis & New Orleans Railroad Company.

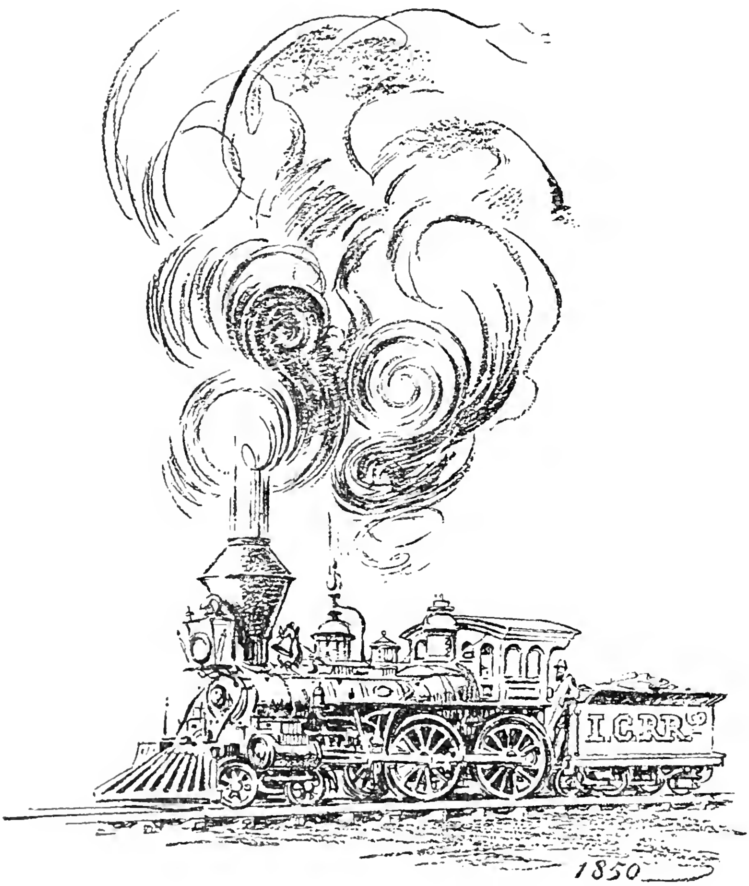


RAILROAD OPERATIONS IN THE SOUTH

In 1881, the gauge of the southern lines, which had been wide, was standardized to become the same as that of the Illinois Central and most other American railroads.

In January 1883, the Illinois Central leased the Chicago, St. Louis & New Orleans Railroad and operated it as its southern division so that through trains could be run from Chicago to New Orleans over its own tracks. Six years later, on October 29, 1889, the Cairo bridge connecting Cairo and East Cairo was completed and the 921-mile through route became an all-rail system.

In the intervening period and later, the Illinois Central, through lease or merger or consolidation, extended its lines to St. Louis on the west and into the coal fields of Southern



Illinois and Kentucky on the east. Eventually it extended them into fourteen states in all to form the "Main Line of Mid-America."

Because the System was a result, as in the case of all the large railroad systems of the country, of the combining of numerous shorter railroads, the corporate structure of the Illinois Central became quite involved. So did its debt structure, since most of the acquired lines were covered by at least one mortgage.

At the peak in 1927, there were still in existence some 15 mortgages securing 26 different issues of Bonds, a collateral indenture secured by Bonds on seven railroads constituting parts of the system, and the Cairo bridge mortgage, in addition to the 40-year 4¾% Debentures due in 1966 and two collateral issues due in 1934 and 1936. There were an aggregate of 33 separate issues outside of Equipment Trusts. (Three issues were paid off during the 1930's so that as of December 31, 1941, there were 30 separate issues, and as of December 31, 1948, 31 separate issues and some 20 mortgages. Prior to 1945, there were 22 wholly owned carrier subsidiaries in the System, some of which were active and some inactive.)

This was the picture of Illinois Central when the depression of the 1930's struck.

PART III

THE SIMPLIFICATION OF THE DEBT AND CAPITAL STRUCTURE OF THE ILLINOIS CENTRAL RAILROAD 1938 THROUGH MAY 1955

THE DEPRESSION OF THE 1930'S AND ITS EFFECT ON THE RAILROAD

THE STORY of progress of the Illinois Central Railroad Company since the depression of the 1930's and more actively since the end of World War II is one of the success, first, of the financial and corporate programs originated and worked out largely through the efforts of Eugene W. Stetson as Chairman of the Executive Committee, and, second, of the operating improvements largely initiated and put into effect by the former General Manager and since the end of World War II the President, Wayne A. Johnston.*

* Present Directors and Executive Committee members are shown in the footnote to page 65. Eugene W. Stetson, a member of the Board since 1932, has been Chairman of the Executive Committee since 1942, and Wayne A. Johnston has been a member of this Committee since he became President in 1945.

Messrs. Stetson and Johnston have had the unanimous support of an able Board of Directors. From the beginning the Railroad has had Boards of Directors which have been composed of leaders in business. In addition to a long line of distinguished Governors of Illinois there have been in the past such outstanding business leaders as J. Ogden Armour, John Jacob Astor, Vincent Astor, William Waldorf Astor, John W. Auchincloss, Pierre Chouteau, Jr., James C. Fargo, Stanley Field, Stuyvesant Fish, Robert W. Goelet, Edward H. Harriman, Oliver Harriman, W. Averell Harriman, Abram S. Hewitt, James F. Joy, Robert S.

The following is a brief description of the reduction of the Illinois Central's debt to manageable proportions and the simplification of that debt and the corporate structure,** as well as of operating and business advances. Particular emphasis is given to many capital changes that the Illinois Central has been able to accomplish during 1953 and 1954 and through May 1955 in continuation of its debt reduction program, which was undertaken in a major way in the late '30's. These changes include the replacing, with series of Bonds carrying lower interest rates, of Bonds bearing higher rates, and through the replacing, in part with Debentures, of its outstanding 6% Non-Cumulative Convertible Preferred Stock, and in calling and paying on March 1, 1955, all of its Preferred Stock.

Such steps were made practicable by the great improvement in the Railroad's credit, due to the matters related herein, as well as to the prevailing Federal policy of low interest rates. In this connection, it may be noted that consideration by the officers and members of the Board of Directors may be given, if interest rates become sufficiently low hereafter, to the re-refunding of some or all of its Consolidated Mortgage Bonds which now

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Lovett, J. Pierpont Morgan (whose partner in his London firm of Morgan, Grenfell & Company, George Peabody, had been helpful in establishing the credit of the Railroad in the City of London which enabled the sale of its first construction bonds and the purchase of large quantities of steel rails and iron from the British), Levi P. Morton, James Norris, Jerome J. Hanauer, Charles A. Peabody, John G. Shedd, and Cornelius Vanderbilt, among others. Mr. Edward H. Harriman, after obtaining control, continued as a director until his death in 1909. In 1923 his son, William Averell Harriman, then twenty-two years old, became a director, in fact the youngest director in the history of the Railroad. He continued as a director until he went into public service, first as Secretary of Commerce and later in many important posts. For many years as Chairman of the Executive Committee he was of unusual and great service to the Railroad. He resigned in 1946 and his post as Chairman of the Executive Committee was filled by Mr. Eugene W. Stetson and that of director and a member of the Executive Committee by the author. Since Mr. William Averell Harriman served the Railroad in these capacities for upwards of thirty years, following the twenty-six years (1883-1909) of the service of his father, together the Harrimans have contributed of their skills to the Railroad for a period of more than half of the Railroad's life. By reason of the substantial stock interest in the Railroad of the Union Pacific Railroad Company of which Mr. E. Roland Harriman, the brother of Mr. W. Averell Harriman, is Chairman of the Board of Directors, the Harriman family has made important contributions to the Railroad and to the territory it serves.

** For details as to the simplification of the debt and corporate structure of the Railroad, see Appendix B hereof.

carry a 3¾% interest rate or will carry this rate after November 1, 1955, at which time the redemption prices on some of these issues will also be reduced.

The Illinois Central, unlike a large number of railroads, has never had to go "through the wringer" to reduce its debt and to simplify its debt and corporate structure. It was able to save itself the grief and expense suffered by many railroads, notably the New Haven,* the Erie, the Seaboard, the Missouri Pacific,** and the Frisco among others, that were forced into the courts to meet their twofold problem. Although severely pressed, like all railroads, by low earnings during the depression years of the 1930's and handicapped in the 1940's by the threat of a top-heavy load of debt, with many of its early maturities non-callable, the Illinois Central was, thanks to the foresight and energy of its above-named officers, the remainder of its management, and its Board, able to put its house in order without resort to the help of the courts. With the completion of this long struggle by the sale of its First Mortgage Bonds, Series H, in September of 1954 and with the completion of the elimination of its 6% Non-Cumulative Convertible Preferred Stock on March 1, 1955 (the latter in part through conversions increased by the sale in January 1955 of Debentures), and with a record net income for 1953 of about $26,370,000 and a net income for 1954 of about $22,000,000—the management and Board may properly look back with a feeling of accomplishment, take stock, and briefly record the principal steps along the way.

The simplification and reduction of the $383,000,000 debt of the Illinois Central were accomplished during the depression years, the war years, and the post-war years under very trying circumstances. During the depression era of the 1930's, which precipitated the equity receivership or bankruptcy of 81,100 miles of railroads of the continental United States, the Illinois

* See Sunderland, "A Brief History of the Reorganization of the New York, New Haven and Hartford Railroad Company, 1947," and Notes appended thereto. "On July 31, 1940, the number of steam railways in receivership or trusteeship was 107. They accounted for 76,989 miles of road operated, or 31.04 per cent of the entire railroad mileage." I.C.C. 54th Annual Report, 1940.

** The Missouri Pacific Railroad has been operated by the Federal Courts since March 1933—nearly twenty-two years.

Central, along with many other railroads, was forced to curtail drastically maintenance of road and equipment in order to avoid resort to the courts. A steep decline in revenues occurred during this era. Operating revenues in 1933 were $88,000,000 as contrasted with $181,000,000 in 1929. Rigid control of expenses enabled the Illinois Central to earn its fixed charges, except in the years 1931, 1932, 1934, and 1935, when it failed to do so by $3,513,064, $3,505,943, $2,964,646, and $9,838,590, respectively. Funds and working capital were inadequate to make the expenditures necessary to rehabilitate roadway and structures and equipment, with the result that large amounts of maintenance work had to be deferred.

In addition, during World War II years, the Illinois Central's facilities were severely taxed and large expenditures were needed so that troops and war materials could be expeditiously and efficiently transported. Along the lines of its railroad in the Mississippi Valley, some seventy munitions and other war plants, as well as many military camps, were located.

Also, as a result of the war, the port of New Orleans became the second largest port in the United States, and about 30% of the business in and out of this port by railroad has been, and is now, handled by the Illinois Central. Furthermore, not only during the war years but subsequently, the demands on the Railroad were greatly increased, and large sums were required to meet these demands, pay for the necessary deferred maintenance, and service its bonded indebtedness.

During the early years of the '30's, the annual interest on all debt was approximately $16,500,000, in contrast to almost one-third that amount at the present time.

In order to carry on, the Illinois Central was required in the spring of 1932 to borrow from the Reconstruction Finance Corporation. Prior to doing so, it satisfied the requirement of offering evidence that it was unable to borrow money elsewhere. This was hardly surprising, for the faith of the workers, the management, and the Board in the destiny of the Illinois Central was not then shared by the investing public.

The condition of this loan and its later extension was that there should be maintained collateral at a certain ratio, and also

THE RAILROAD'S CONTRIBUTION TO THE COTTON INDUSTRY

that cash dividends on stock should not be paid. There was a further condition that at least $350,000 or approximately 1% should be paid in each year, but the Railroad was allowed to spend that amount in the purchase of its own Bonds provided the Bonds purchased were deposited as additional collateral. This requirement is significant in view of the Railroad's plan to acquire debt not only then but in subsequent years so as to strengthen its financial condition.

The foregoing, and the financial problems mentioned below, required unusual and expert attention in their solution, particularly because of the burden of making provision for the liquidation of the indebtedness due to the Reconstruction Finance Corporation. Of course, the Railroad had to stop all dividends, but it was always able to meet its payroll even though, as business dried up, the payroll had to be reduced.

On October 27, 1931, for the first time since 1859, the Railroad Company passed the payment of dividends on its Common Stock. For approximately forty-five years before 1931, the Railroad had averaged payments of nearly 7% on its outstanding Stock. Up to that time, only one other railroad had a longer record of annual payment of dividends. The Railroad was forced to suspend the payment of dividends because it showed, in the '30's, the net deficits mentioned above, notwithstanding its unusually drastic curtailments and economies in maintenance of railroad and equipment, in train operations, and in every other branch of railroading. The extent of the depression of the '30's was emphasized by the fact that, with the exception of the years 1858 and 1859, dividends had been paid regularly since 1852. The Railroad's Stock, which sold on the security markets in 1930 for $136.75, soon fell to $4.75 a share in June 1932.

The loyalty of the officers and of the employees is demonstrated by the fact that at that time the officers voluntarily took a cut in salary and the railroad brotherhoods and unions consented to a general temporary 10% wage reduction. This cooperation from the officers, the employees, the railroad brotherhoods, and the unions encouraged the management and the Board and was of the greatest help.

For a generation that did not live and struggle through the darkness of the Great Depression of the 1930's, it would be hard to visualize the tragedies it brought. They were utterly devastating to many of our people. Certainly, no employer was immune from the depression's searing impact as the business of America everywhere ground slowly almost to a stop while the whole world, gripped in panic, wanted not coal, or products of the farm, or products of the forest, or merchandise, or services, but only cash.

All railroads, of course, need freight and passengers so that their trains may run and bring prosperity to the cities and towns and villages which they serve. But, at the depth of the depression, few people were in a position to buy or to travel and, consequently, only a trickle of the former traffic went over the Illinois Central lines.

So it came about that railroad employment on the Illinois Central fell almost 55% from the high of 1929 to the low of 1933. This was a particularly distressing situation to the management and the Directors because of the plight of the loyal and able wage earners who were forced out of work. In 1929, the average number of employees was 55,917; in 1933 it was 25,353. But it is significant that this reduction was made necessary by the fact that while operating revenues in 1929 were, as already pointed out, $181,000,000, they were only $88,000,000 in 1933, and that net income had fallen from $13,800,000 to $150,000.

Towards the middle of the 1930's, the depression began to end. All employers could feel a weight lifted from them as America, with its usual optimism and courage, again went to work and started to buy. Slowly revenues began to increase for the Railroad, and the increase continued and may even have been accelerated as the grim specter of war hovered over Europe, to materialize in World War II and to extend itself to the whole world. We must, however, always remember that the prosperity which goes with peace rests on a surer foundation and is more satisfying and more constructive than that engendered by war. With the coming of peace, the Illinois Central was able to enlarge the payroll, to rehire many of its old and faithful workers, to build up its working capital, to reduce

its funded debt, and at the same time to repair the damage to its physical property resulting from the low earnings of the depression years and the unavailability of materials during the war years. Every effort was made to reinstate as rapidly as possible the employees who had been thus forced out of employment. The number of employees was greatly increased, so that by 1945, 41,330 were employed. But in that war year, operating revenues were $237,000,000 and net income nearly $11,500,000.

Since 1945, earnings have risen. In 1953, operating revenues were over $308,000,000 and net income was over $26,300,000. It is interesting to note that although average wages continued to rise in each year from 1945, when they were $2,459, to 1953, when they were $4,354, the average number of employees was gradually reduced to 35,555 in 1953 and 34,492 in 1954. The ability of management to make this substantial reduction in employees required to handle the increased business indicates a high degree of efficiency. This has been accomplished largely by, among other things, increased use of labor-saving devices and rearrangement of train schedules resulting from the dieselization in recent years.

This alertness of management has been favorably commented on in an unsolicited pamphlet prepared by the American Institute of Management, a non-profit organization which has made a series of studies of various industries in the United States.

The decentralization of our many large industries has resulted in many new plants being placed along the line of the Railroad, which have employed large numbers of people, many of whom formerly were employed by the Railroad.

In the late 1930's, the management and the Board studied the Railroad's debt and agreed on a program. They started to reduce funded debt by purchase and initiated a program designed to meet in advance, so far as practicable, the threat of the large amount of debt maturing between 1950 and 1955, which as of December 31, 1929, aggregated approximately $192,000,000. The larger part of this debt, that which matured between 1950 and 1954, was non-callable. As will be seen hereafter, on July 31, 1949, the early-maturing debt had been reduced to about $81,000,000, and the Offers of Exchange made

in 1949 resulted in further substantial reductions of the total outstanding amount of this portion of the debt.

As will appear, beginning with 1949, the Illinois Central was able to initiate, and by 1954 accomplish, a simplification of its debt structure while effecting during the latter part of the 1940's a substantial simplification of its corporate structure. Thus, the intensive action of the Chairman of the Executive Committee, the President, and members of the Board of Directors, and the many who worked with them, has resulted in cutting down the number of mortgages and other debt indentures from about thirty in the 1930's to a single Consolidated Mortgage, dated November 1, 1949, which is a direct first lien on over 5,953 miles of the System, and in reducing the approximately twenty-two wholly owned carrier subsidiaries comprising the System in 1939 to five in 1954. These practical forward steps were taken toward consolidating the railroad companies formerly comprising the System into a single corporate entity, the Illinois Central Railroad Company.*

THE RAILROAD'S RECOVERY FROM THE DEPRESSION—INCREASED DIVIDENDS ON ITS COMMON STOCK

As a result of the planning and unusual efficiency in operations of the management and the employees and also because of the sacrifices made by each—following the disallowance by the Court of the claim in the *Guttmann* Preferred Stockholders' suit that the 6% Preferred Stock dividend was cumulative, which had it been allowed would have cost the Railroad many millions of dollars and delay in the payment of dividends on its Common Stock—dividends on the Preferred Stock were resumed on April 16, 1948, seventeen years after the break in the seventy-two-year dividend record in 1931. On January 20, 1950, payment of dividends on the 1,357,978 shares of Common Stock outstanding was resumed. Dividends were paid at the rate of 3% in 1950, 4% in 1951, and 5% in 1952; and following the call of the Preferred Stock and its conversion, share for share, into Common

* See Appendix B.

on January 31, 1955, the dividend on the Common was increased, on February 18, 1955. This demonstrated to a substantial degree that the financial difficulties of the Railroad had been in large part overcome, and the Railroad returned to its role as a dividend-paying railroad.

The record of the Railroad during and following the most difficult period in the history of railroad financial problems, when so many of our Class I railroads had to submit to national bankruptcy proceedings, is an outstanding one.

With the threat of the bond maturities abated as a result of the debt reduction program discussed under the next subheading of this chapter, the management of the Railroad was also able to embark in the last few years on an extensive Dieselization Program. The Illinois Central's delay in this respect, as compared with many other railroads, was due primarily, as indicated below, to the fact that the "first things first" rule was applied, which meant that the debt problem had to be met before other problems were solved. But there is also the fact that the management realized that with its water level straight routes, steam power was not at the disadvantage that it was on railroads with more difficult terrain. The Railroad's management had also participated in developing coal-turbine power and had hoped that it would be developed to a point where it would be more efficient than oil-diesel power. This would have been particularly helpful because of the Railroad's large and expanding coal traffic. While progress has been made in the experiments with the coal-turbine locomotives, as well as with gas-turbine and oil-turbine locomotives, it was not great enough, in the management's opinion, by the time the Railroad's financial problems were being solved to warrant the Railroad's further delaying to start a gradual changeover to diesel power. The Railroad accordingly began its changeover with switching, then dieselized its through north-and-south passenger service; after that it acquired all-purpose freight diesels and used them on an expanding number of those lines where the most effective use could be made of diesel power.

Accordingly, by the end of 1954, the Railroad had purchased, largely under Equipment Trust financing, 163 switch-transfer

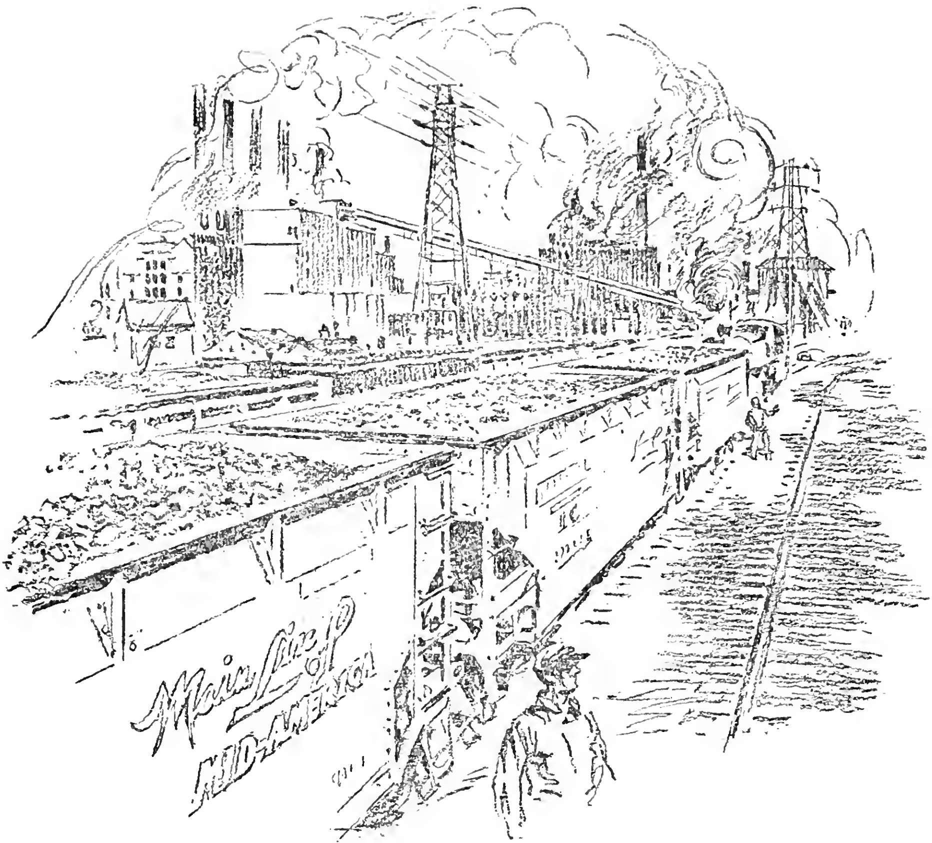
diesel locomotives, 96 all-purpose (freight) locomotives, and 42 passenger locomotives, which cost about $40,700,000. It scheduled for 1955 the purchase of 70 all-purpose (freight) locomotives to cost an additional $11,700,000; they have now been delivered and are in operation. The Railroad estimates that to complete the Dieselization Program after 1955, it would require about 225 all-purpose locomotives at a present estimated cost of about $37,800,000. It is the intention to spread the acquisition of this equipment over a number of years.

Because of the financing of the diesel locomotives—as well as new banana, automobile, coal, hopper, box, and flat cars which the Railroad has acquired (or is acquiring in 1955) and which are needed for the greatly increased traffic in the Mississippi Valley, the port of New Orleans, and for the movement of coal to the Great Lakes for transshipment—fixed charges, which include the Equipment Trust dividends, have been increased above the lower level they would have reached as a result of the Bond payments and acquisitions, as has been stated above.

The approximate principal amount of equipment obligations as of December 31, 1954, was $59,114,000 and the annual maturity requirements for 1954 were approximately $8,800,000. However, the annual maturities are only approximately $300,000 over current depreciation on equipment of approximately $8,500,000. Maturities of equipment obligations in the '30's annually averaged approximately $6,400,000.

As of November 2, 1955, the total amount of interest-bearing mortgage debt is estimated to be approximately $128,000,000 and the amount of annual mortgage interest thereon approximately $4,500,000.

It is generally recognized that the man to whom the principal credit is due is Eugene W. Stetson, Chairman of the Executive Committee and a Director since 1932, the year in which the depression was the greatest. He devoted his major attention during the war years to dealing with the problems they presented, including the judicious retirement of debt, and since the war years he has concentrated particularly on the simplification of the debt program, the continuance of the retirement of debt, and refunding debt when possible on better terms. His saga-



THE RAILROAD'S CONTRIBUTION TO THE COAL INDUSTRY

cious counsel in financial affairs was a beacon light to the late President Beven as it has been to President Johnston. Stetson's contribution to solving the financial problems of the Railroad, Johnston's outstanding expertness as a railroad operator, and the harmonious relations between them and the members of the Board of Directors and the Executive Committee—these are important factors in the explanation of the present strong financial and operating situation of the Railroad.†

† THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE
(as constituted December 30, 1952)

*WAYNE A. JOHNSTON *President*, Illinois Central Railroad	Chicago
HUGH M. COMER *Chairman of the Board*, Avondale Mills	Sylacauga, Alabama
STEPHEN Y. HORD Brown Brothers, Harriman & Company	Chicago
*WILLIAM R. KING *President*, William R. Moore Dry Goods Company	Memphis
JAMES R. LEAVELL	Ocean Springs, Mississippi
DONOLD B. LOURIE *President*, The Quaker Oats Company	Chicago
HOWARD H. RATH *President*, Rath Packing Company	Waterloo, Iowa
EDWIN J. SPIEGEL *President*, Gaylord Container Corporation	St. Louis
*EUGENE W. STETSON *Chairman*, *Executive Committee*, Illinois Central Railroad	New York
ADLAI E. STEVENSON *Governor*, State of Illinois, ex officio	Springfield, Illinois
*EDWIN S. S. SUNDERLAND Davis Polk Wardwell Sunderland & Kiendl	New York
SOLON B. TURMAN *President*, Lykes Brothers Steamship Company, Inc.	New Orleans
LOUIS WARE *President*, International Minerals & Chemicals Corporation	Chicago

* Executive Committee.

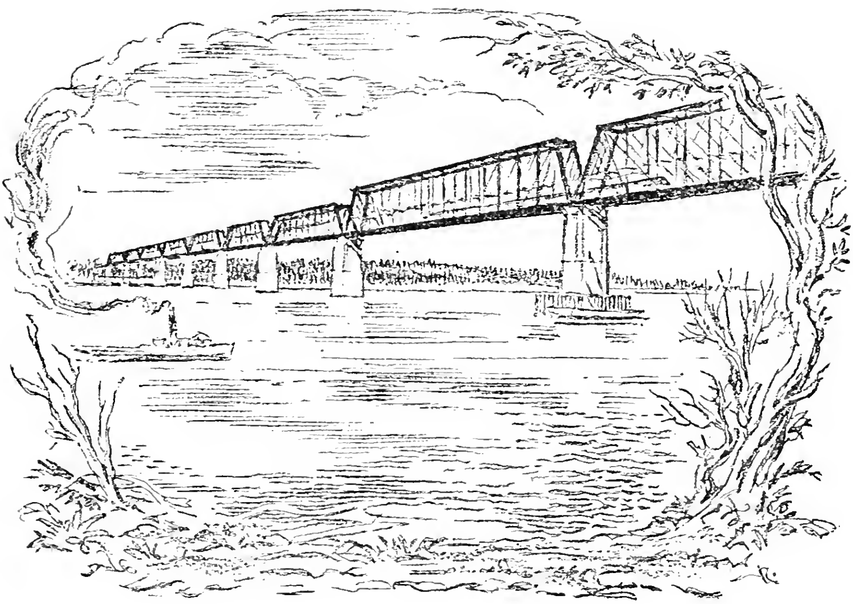
As constituted on June 1, 1955, the Board has one additional Director, who was elected following an increase in the number of Directors approved at the annual meeting of May 19, 1954. He is Dwight P. Robinson, Jr., Chairman, Board of Trustees, Massachusetts Investors Trust. The present Governor of Illinois, a member ex officio of the Board of Directors, is William G. Stratton.

*Thomas E. Wilson .... Chicago
Chairman of the Board, Wilson & Company
*Robert E. Wood .... Chicago
Chairman of the Board, Sears Roebuck & Company

It should be remembered that these things were accomplished not only under the heavy burden of the Reconstruction Finance Corporation indebtedness, but under the necessity of dealing with many unusual and difficult financial problems. Among these was the necessity of considering the need of the people of New Orleans for new terminal facilities. This need was largely a result of the heavy war traffic, and later the increase of traffic due to the development of the port, to which the Railroad made and is making a substantial contribution. It is understandable that the public officials and people of New Orleans and Louisiana desired new railroad terminal facilities. These might well have required very large expenditures by the Railroad. Fortunately, through the efforts of President Johnston and Vice President and Chief Engineer Charles H. Mottier, a satisfactory arrangement was worked out under which the Illinois Central became a tenant in a new terminal.

Among other financial and operating problems which were solved during this difficult period was the following important one: In 1941, it was learned that the fifty-year-old Cairo bridge, which spans the Ohio River at Cairo, Illinois, and is the longest railroad bridge in the world, would have to be replaced pursuant to reports of the United States Army Engineers. The estimated cost in so doing was between $10,000,000 and $15,000,000. This problem came during the period when the Railroad had insufficient working capital. As a result of studies made by the Engineering Department of the Railroad, under the supervision of Mottier, a novel plan was developed to renew the superstructure on the existing substructure of the bridge. This unique plan was carried out and materially reduced the cost of the reconstructed bridge.

Other financial problems dealt with during this period were those involving the Central of Georgia Railroad Company, a



THE LONGEST RAILROAD BRIDGE IN THE WORLD,
AT CAIRO, ILLINOIS

former subsidiary, and the charter tax suit filed by the State of Illinois.

It is to the credit of the Illinois Central that throughout the foregoing difficult periods it continued to discharge its responsibility to the communities served both in the Mississippi Valley and in the western states.

As the first land-grant railroad in America, the Illinois Central pioneered in large-scale agricultural promotion and maintained the high level of this activity not only during the depression period but subsequently.

Originally, the Railroad's lines penetrated a largely undeveloped region. The Railroad was dependent to a very large degree on the prosperity of agriculture and industry in the region which it served.

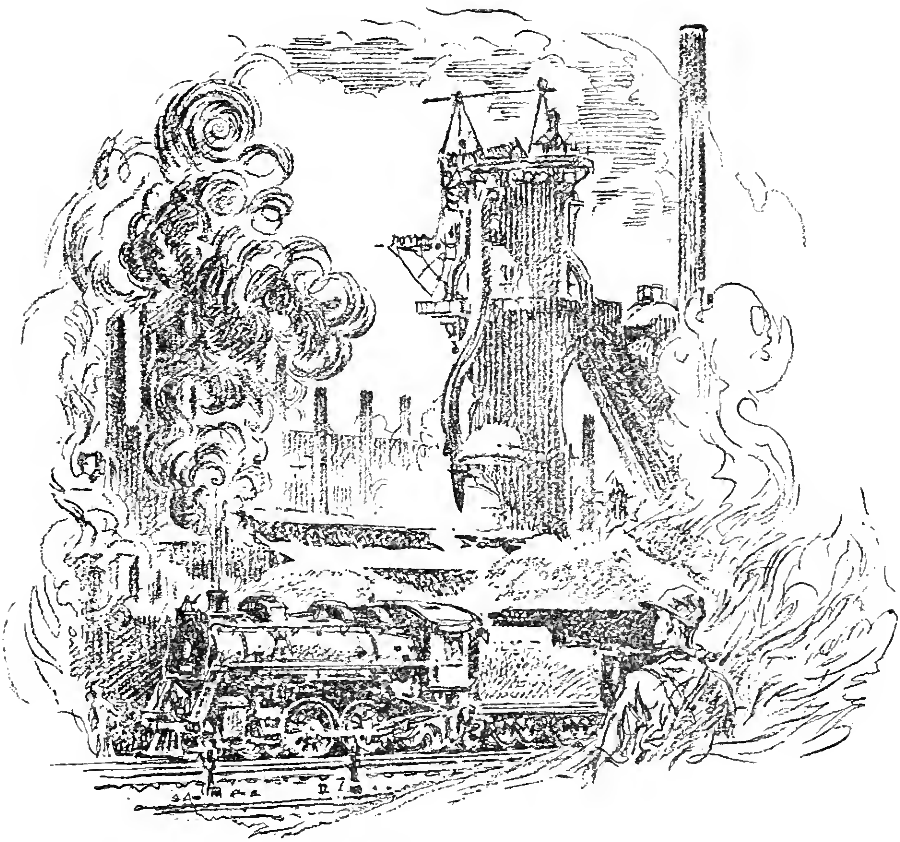
Its record of accomplishment in agricultural development has been unusual. As long ago as the spring of 1866, it moved substantial quantities of choice strawberries to the Chicago markets. This was the beginning of fruit shipments under refrigeration on railroads in the United States.

The growth of agriculture, including animal husbandry, and of industry in the territory served by the Railroad from 1850 to the turn of the century was probably without a parallel in this or any other country. The population of the fourteen states served by the Railroad increased 4-fold; the value of farm products increased 13-fold; the value of manufactured products increased 28-fold; while the aggregate wealth of these states increased 16-fold.

The Railroad's increasingly active association with the agricultural colleges in the states served by it has been carried on since the early days without interruption due to depressions. This is a signal accomplishment.

More importantly, through the operation of trains carrying agricultural exhibits, as well as industrial exhibits of improved agricultural and other machinery, teamwork between the Railroad and shippers has been developed. This cooperation is an important factor in the Railroad's increased traffic.

Thomas E. Wilson, a member of the Executive Committee and of the Board of Directors for many years, has been the



THE RAILROAD'S CONTRIBUTION TO THE GRAIN INDUSTRY

prime mover in the development of animal husbandry by 4-H Clubs and by other young people of the rapidly developing Mississippi Valley and the agricultural states served by the Railroad to the west. One important result of this outstanding work is that young people generally are remaining in their home territories and are actively participating in their development.

Notwithstanding these very urgent and difficult problems, the Illinois Central Railroad made substantial expenditures for essential maintenance, improvements, and equipment. The following tabulation, covering a portion of the rearmament period prior to our entrance into World War II, the war, and the post-war period, shows clearly that the management did not stint on property improvements in order to further its financial rehabilitation program. The $259,000,000 spent on property in the years 1941 to 1954, inclusive, may be considered in the light of the investment in transportation property as of December 31, 1954, of $768,000,000 before depreciation and amortization of $235,000,000. It is also to be noted that the major portion of these property improvements were necessarily made in the post-war period, due in part to the stringent material situation that existed during the war. These improvements contributed substantially to the earning power of the property.

	Cash Net Income during Year (A)	*Total Funded Debt at End of Year*	*Net Current Assets at End of Year*	*Cash Dividends during Year*	*Gross Additions and Betterments to Property during Year*
	Thousands				
1941	$17,955	$368,603	$19,536	—	$20,377
1942	34,961	342,394	31,344	—	9,381
1943	39,477	305,539	30,102	—	7,359
1944	32,880	282,110	31,309	—	8,016
1945	32,272	256,818	50,544	—	5,894
1946	19,019	241,874	41,667	—	13,643
1947	27,142	229,596	39,329	—	17,577
1948	33,939	233,987	47,814	$1,119	23,641
1949	29,437	238,672	46,320	1,119	38,157
1950	42,849	216,268	47,983	5,193	18,465
1951	31,307	205,593	32,973	5,193	31,094
1952	36,512	204,324	38,176	5,872	21,272
1953	39,235	193,468	37,758	7,229	20,559
1954	35,581	188,629	37,306	7,909	23,869

(A) Net income plus depreciation, retirements, and amortization.

	Change, or Totals, between End of 1940 and 1954, Thousands	*Change, or Totals, between End of 1944 and 1954, Thousands*
Funded debt REDUCED by:	$176,448	$93,481
Net current assets INCREASED by:	29,661	5,997
Total spent on property	259,304(B)	214,171(B)
Cash dividends paid	33,634	33,634
Total	$499,047	$347,283
Deferred expenditures on property	59,114(B)	59,114(B)
Balance	$439,933	$288,169
Cash net income	$452,566(A)	$327,293(A)

(A) Net income plus depreciation, retirements, and amortization.
(B) Payment of $59,114,000 of which was deferred to later years in the form of Serial Equipment Obligations outstanding in that amount as of December 31, 1954.

Thus, the Illinois Central has begun its second century of service to the Mississippi Valley and the vast areas east and west of it without, as has been said, having had to seek the protection of the courts. The accomplishment of maintaining its financial integrity, when a large number of the railroads of the United States had to seek assistance, and of reducing its debt and simplifying its corporate structure is not only one in which the public in the Mississippi Valley and the Mid-West should have great pride but one from which it should derive a sense of well-being, safe in the knowledge that it may depend upon this great railroad system for service essential to the prosperity of all interests. Credit for this accomplishment is due not only to management and Directors, stockholders and creditors, but to the shippers. It has been frequently said by those who are familiar with the situation that the relationship between the shippers and the Illinois Central is an outstanding one, and that in no other section of the country has there been a greater demonstration of teamwork than by those who use this transportation facility and those who endeavor to make it useful.

In addition to the agricultural and industrial developments referred to above, since December 31, 1952, the date of the first publication of the Brochure, such developments have

greatly increased, not only in the improvement and variety of agricultural, animal husbandry, forestry, and chemical and industrial fields of activity, but in the location in the territory of many new industries resulting in greatly improved traffic, particularly in the transportation of coal and chemicals. During the past two years, and particularly during the latter part of the first quarter of 1955, the expansion of plants heretofore constructed and the location of new industries in the Mississippi Valley have resulted in a very marked improvement in the traffic of the Railroad. Not only are new industries being added, but existing industries served by the Railroad are continually expanding and have spent some $200,000,000 on plant expansion since 1948. During the same period, through the first 9 months of 1954, 803 new industries were located on the Railroad's lines. In 1954, the Railroad's industrial department arranged for the location of 108 new industries along the Railroad and assisted in the expansion of 24 existing industries. Within the past two years, the Atomic Energy Plant at Kevil, Kentucky, started operations, as did plants of the B. F. Goodrich Chemical Division, the Pennsylvania Salt Company, Pittsburgh Metallurgical, and National Carbide at Calvert, Kentucky.

Other important operations were recently established along the Railroad's lines by the International Harvester Company, at Memphis and Chicago; E. I. duPont, at Memphis; Spencer Chemical, at Vicksburg; Cargill, at Natchez; Ford Motor, at Memphis; U.S. Rubber Company, at New Orleans; Westinghouse, at Vicksburg; General Electric, at Bloomington, Illinois; Sears, Roebuck, at Gulfport, Mississippi; Armour, at Memphis and Kankakee, Illinois; Caterpillar Tractor and Borg-Warner, at Decatur, Illinois; Anheuser-Busch, at New Orleans; and many others.

One of the most significant and encouraging trends in the Railroad's territory is the development and rapid expansion of what might be called chemical centers at Louisville and Calvert, Kentucky; Woodstock, Tennessee; and Tuscola, Illinois. The basic chemical industries located in these areas not only produce profitable traffic, but are stable producers, and due to their

extensive research are constantly developing new sources of traffic.

Coal constitutes the largest single volume commodity handled by the Railroad. In 1953 and again in 1954, the Railroad established for itself for the second consecutive year an all-time high in the handling of this commodity. Furthermore, in 1954, it was the only railroad among the fourteen top coal-carrying railroads to increase the number of cars of coal handled.

Another respect in which the Railroad made an outstanding accomplishment in 1954 was in the improved condition of its bad-order cars. In 1954, the Railroad advanced its position among Class I railroads of the country to the position of fourth, as a result of its having less than 2% of bad-order cars. During this period, in its own car shops, the Railroad built a large number of cars, many of which had special features which made possible the more economical transportation of commodities as bulk rather than in individual packages.

During the years 1953 and 1954, a large number of these cars were put into service, and the Dieselization Program of the Railroad was greatly advanced by the purchase of "all-purpose" freight diesels as well as switch-transfer diesels and passenger diesels. This resulted in large operation savings. In the present year, 1955, some seventy additional "all-purpose" freight diesels have been put into service, leaving a relatively small number of diesels to be thereafter purchased and financed.

In addition to the unusually well-maintained cars of the various types required for maximum public service, some 800 steam locomotives are in good order and are being economically used, particularly in the coal traffic areas.

It is desirable that there be an accurate record of the action of the management, the Executive Committee, and the Board of Directors which made these results possible.

THE METHODS BY WHICH, UNDER THE GREATEST OF DIFFICULTIES, THE DEBT STRUCTURE WAS SIMPLIFIED ARE HEREIN OUTLINED AND THEN SET FORTH IN DETAIL.

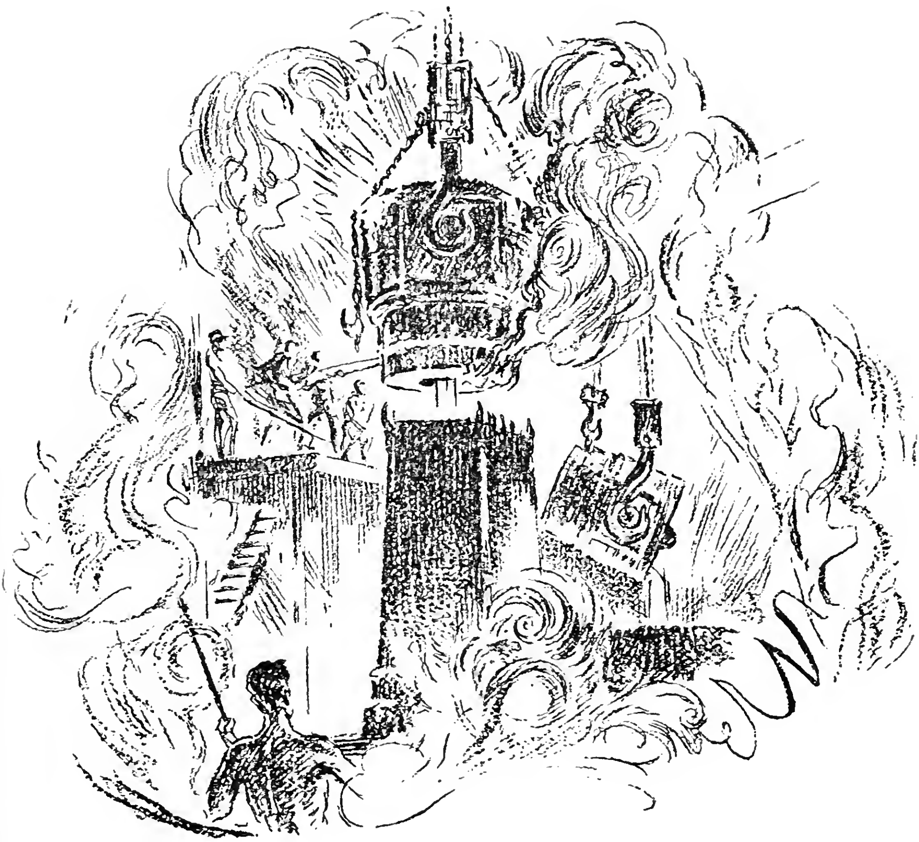
The story of the debt reduction is recorded in the testimony, exhibits, and findings in the Federal Court in the Preferred

stockholders' suit brought against the Illinois Central by Alexander Guttmann.* This proceeding was brought for the purpose of questioning the soundness of the judgment of the management, Executive Committee, and Board in the conduct of the financial affairs of the Railroad in not declaring Preferred Stock dividends though such dividends were covered in certain years. In addition to the story which is told in the text, pertinent testimony is quoted in Appendix A below. While it is true that the Preferred Stock involved in this suit has now been retired, the testimony covered the field of Directors' responsibility generally, and specifically the policy adopted by the Directors to reduce the funded debt to manageable proportions. Consideration of the testimony gives a first-hand view of the way in which the program was initiated and developed. While the pleadings in the above-mentioned suit embraced the period from 1937 to 1947, the case was tried in the spring of 1950 and the testimony in effect covers the Railroad's actions through 1949. The record in this case is discussed herein in some detail (and in Appendix A) in order to show the basis of the policy of the management and Directors.

In addition, there will be briefly described the steps involved in the debt reduction program which was carried on until 1952. These include the creation of the Consolidated Mortgage of November 1, 1949, and the Offers of Exchange of the first series of Consolidated Mortgage Bonds, Series A, B, and C, all carrying 3¾% coupons after November 1, 1955; the making of contracts in May 1952 with insurance companies for the private placement of $25,000,000 of Series D 4¼% Bonds ($13,000,000 of which were sold on June 5, 1952, and $12,000,000 of which were sold on April 1, 1954); and the sale of $62,000,000 of Series E 3⅞% Bonds in the fall of 1952.

There also are briefly described the steps taken since 1952 in reducing the interest rates carried by many outstanding security

* This case involved the question of whether dividends should have been paid on the non-cumulative Preferred Stock, which was retired on March 1, 1955, in the years 1937-1947. The trial court upheld the decision of the management not to pay dividends during the period in question. The trial court's judgment is reported in 91 F. Supp. 285 (1950). This was unanimously affirmed by the Court of Appeals for the Second Circuit in 189 F. 2d 927 (1951), and certiorari was denied by the Supreme Court in 342 U.S. 867 (1951).



THE RAILROAD'S CONTRIBUTION TO THE STEEL INDUSTRY

issues by refunding at lower interest rates. These include the refunding of the Railroad's $34,743,000 of Forty Year 4¾% Debentures due in 1966, called for redemption on February 1, 1954, in part by the sale of $15,000,000 of Series F 3¾% Bonds in January 1954, by a $12,000,000 bank loan secured by $12,000,000 of Series D Bonds made on February 1, 1954, and by treasury funds; the sale on April 1, 1954, of the $12,000,000 of Series D Bonds and the payment of the bank loan with proceeds of the sale; the sale of $25,000,000 of Series G 3¼% Bonds on August 25, 1954, in refunding of the $25,000,000 of Series D Bonds; the sale in September of 1954 of $60,000,000 of Series H 3⅜% Bonds, to refund the then outstanding Series E Bonds; and the sale in January of 1955 of $18,000,000 of 3½% Sinking Fund Debentures, this sale being intended to supply funds that might be necessary for the redemption of the 6% Convertible Preferred Stock, which the Railroad decided to call on December 30, 1954, for redemption on March 1, 1955. Owing to the fact that conversion of the Preferred Stock was made in substantial quantity by the cut-off date, January 31, 1955, there were left only 5,925 shares of Preferred Stock to be redeemed on March 1, 1955, which required $343,650. Debentures amounting to $12,533,000 were reacquired by the Railroad at their principal amount, and the remaining proceeds of the Debentures were accordingly made available to the Railroad for general capital purposes.

Finally, certain comments on the Consolidated Mortgage will be made.

THE DETERMINED DEBT REDUCTION POLICY OF THE DIRECTORS OF THE ILLINOIS CENTRAL THROUGH 1949

The nature of the financial problem facing the Railroad in the late 1930's and during the World War II years and thereafter was the subject of testimony in the *Guttmann* case, the facts of which as they bear on our problem are here given (and quotations from officers' and Directors' testimony are given in Appendix A). Facts found by the trial court and not disturbed

or questioned in any way by the appellate courts* show the origin of the problem and the solution decided on by the management and the Directors. They show that *from the late 1930's it was the policy of the Railroad to reduce its outstanding funded indebtedness as rapidly as possible.*

In 1932, the financial condition of the Illinois Central was grave. The fixed charges on its indebtedness, then amounting to $16,452,837, were so large in relation to its earnings, reduced by the depression, that in that year the Railroad would have found it very difficult to avoid default in the payment of such interest without the assistance of the Reconstruction Finance Corporation, which loaned it $3,863,000 for the purpose of meeting the interest. The Railroad continued to obtain loans from the R.F.C., to meet maturing debt and for other purposes. In 1937, it had to borrow $10,000,000 more from the R.F.C. in order to meet the maturity of an issue of $12,500,000 in notes, so that its outstanding loans from that source amounted to $35,185,000.

On December 31, 1937, the Railroad had a total outstanding indebtedness of $367,588,175, and interest charges for the year 1937 amounted to about $15,536,090. In that year, it was facing its second financial crisis and, because of the deficits of the prior years and its heavy fixed charges, was on the verge of reorganization under the bankruptcy statutes.

In 1937, the Directors of the Railroad were also faced with the maturity in 1939 of the $35,185,000 of the notes to the R.F.C. An extension of these notes to 1944 was arranged and they were paid off in 1943.

One of the most serious problems facing the Illinois Central and its Directors in 1937 was meeting the heavy indebtedness maturing in the years 1950, 1951, 1952, 1953, and 1955, totalling $188,456,000, of which $134,791,000 in the aggregate became due in 1950, 1951, 1952, and 1953 and was non-callable. In view of the critical condition of the Railroad in the late 1930's and the absolute necessity of taking care of this indebtedness, its Directors determined upon a program to reduce the indebtedness and the heavy annual interest charges thereon by purchas-

* Some necessary adjustment of the amounts stated has been made and some additional facts have been added.

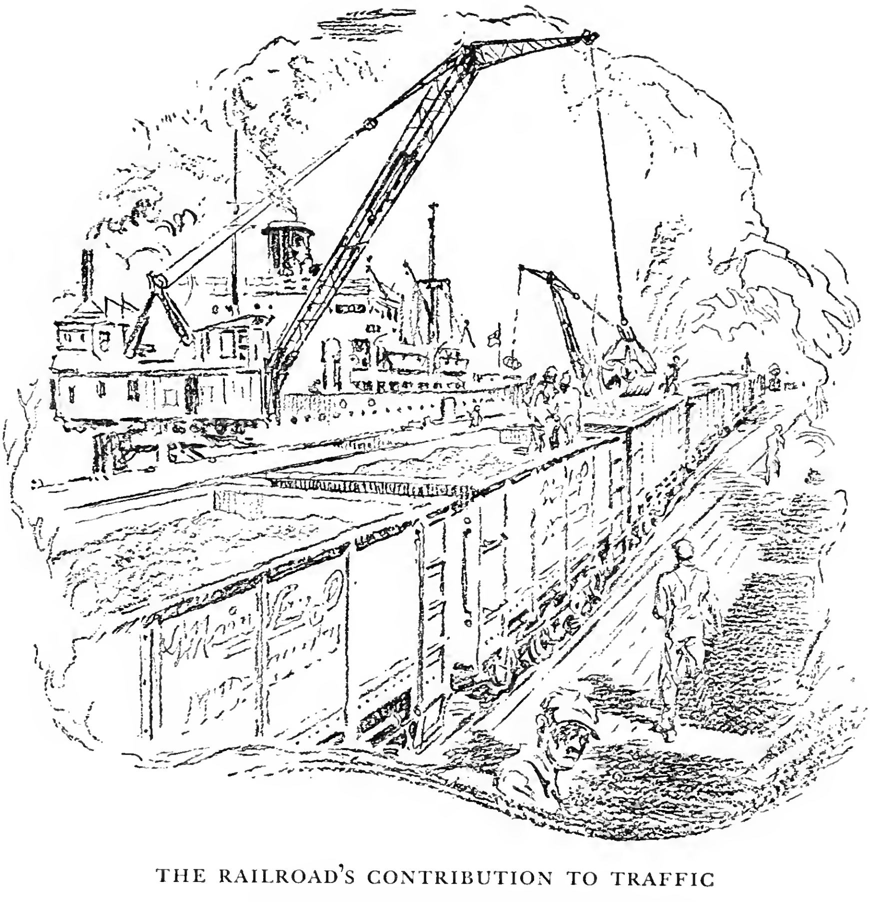
ing outstanding Illinois Central Bonds. This program of debt reduction was inaugurated in 1939 when the Directors negotiated a supplemental agreement with the Reconstruction Finance Corporation whereby the Railroad was permitted, as stated above, to apply the amount of 1% cash payment against principal required to be made to the R.F.C. toward the purchase of outstanding Bonds which would be pledged as further collateral for the R.F.C. loan.

This program of purchasing outstanding bonds of the Railroad for the purpose of reducing the amount of its heavy early-maturing indebtedness was followed from 1939 to the time of the financing in 1952.

As a result of the purchases of the Illinois Central's outstanding Bonds in the open market, the total amount of its indebtedness was reduced by $114,231,900 as of December 31, 1949, and a saving resulted to the Railroad of $20,269,952 principal amount over what it would have cost if these obligations had been paid at maturity. (The purchases also resulted in a saving through December 31, 1949, of $19,663,529 in interest charges which would otherwise have had to be paid. As of December 31, 1950, the amount of saving in interest charges was $24,075,778.)

As part of the debt reduction program the Directors of the Railroad in the fall of 1945 authorized an invitation for tenders of $53,794,000 face amount of its non-callable Bonds due in the years 1950, 1951, and 1952. Although Bonds were tendered in the amount of approximately $32,000,000, the prices at which they were tendered were such that the Directors accepted only $15,464,000 at an average price of 95% of their par value.

As a further step in its debt reduction program, the Directors of the Railroad in December 1945 made plans to attempt a refinancing through a new mortgage or extension of certain portions of the indebtedness. Under this plan, it was proposed to issue two classes of Bonds, one of which would be offered in exchange for certain non-callable Bonds maturing in 1951 or 1952 and the other of which would be used to redeem callable Bonds maturing in 1955. In January 1946, the stockholders of the Illinois Central authorized the creation of a new mortgage for the purpose of securing the proposed new Bonds. In May



THE RAILROAD'S CONTRIBUTION TO TRAFFIC
IN THE PORT OF NEW ORLEANS

1946, an exchange offer was made under the terms of which it could not be declared operative until at least 50% in principal amount had been deposited under the plan. Even though the rate of interest on the new Bonds was increased and the Offer of Exchange extended, the amount of Bonds required to be deposited was not forthcoming and the offer was declared inoperative and the plan abandoned.

During the progress of the debt re-purchase program, a claim was made in 1947 by some holders of Preferred Stock that the Stock was in effect cumulative, and in 1948 a suit was brought as herein indicated by such Preferred stockholders in which this claim was asserted. If the claim had been successful, the Company would have been obligated to pay approximately $12,300,000 of past dividends covering the period from January 1, 1937, to the end of 1947. At this time, the attorneys for the Railroad, the firm of Davis Polk Wardwell Sunderland & Kiendl, of which the author is a member and Eastern Counsel for the Railroad, made a very extensive examination of the legal questions involved and advised the Railroad as to the manner of defending the litigation. With the advice of the senior member of the firm, the late John W. Davis, the author, his partners, Theodore Kiendl and S. Hazard Gillespie, Jr., and their associates, Chester F. Leonard and Francis W. Phillips, the litigation was dealt with on behalf of the Railroad in the District Court, the Second Circuit Court of Appeals, and the United States Supreme Court, which finally sustained the position taken by the Railroad upon the advice of the above-mentioned attorneys.

During the progress of the handling of this matter, the debt reduction program was carried on, although the wisdom and propriety of doing it was a matter of serious consideration for the management, because of the large amount involved in the Preferred Stock suit. With the successful completion of the litigation, the program could be continued further with confidence in its wisdom. Had this litigation not been successfully handled and completed, the story of the balance of the debt reduction program and simplification of the debt and corporate structure of the Railroad, herein detailed, could not have been written.

In testifying in the *Guttmann* case with respect to the unsuccessful Exchange Offer of 1946, Eugene W. Stetson stated:

Q. Mr. Stetson, just before we recessed you told us that the exchange offer of 1946 did not succeed. What did that mean to you, what significance did the failure of the exchange offer have for you as a banker and as a director of the Illinois Central Railroad? A. That the public did not think that we had gotten our debt sufficiently reduced.

Q. Sufficiently reduced for what purpose? A. For the purpose of a new mortgage on the property.

Q. To establish the credit of the road? A. To establish the credit of the road, that is correct.

Q. What did the Illinois Central do after this exchange offer was dropped in June, 1946; what steps did the Illinois Central take thereafter? A. We continued to buy bonds.

Q. In 1946 and 1947? A. Yes.

In the early part of 1948, the Directors of the Railroad invited tenders of certain of its non-callable Bonds due in the early 1950's, and pursuant to this invitation Bonds were purchased in the principal amount of $13,647,500.

Pursuing the plan of debt reduction, the Directors in September 1949 made a new and different Offer of Exchange to holders of certain Bonds maturing in the years 1951, 1953, and 1955 totalling over $52,200,000 face amount. A new Consolidated Mortgage dated November 1, 1949, was created on the properties of the Illinois Central for the purpose of this offer and three series of Bonds (Series A, B, and C) issuable thereunder, maturing in 1974 and 1979, were offered in exchange on the terms set forth in the Offer of Exchange dated September 15, 1949. As a result of the Offer, $25,637,000 principal amount of exchangeable Bonds were turned in.

With respect to the 1949 Exchange Offer, Stetson stated that about $20,000,000 of the Bonds exchanged under the Offer came from three large insurance companies and that he regarded the Offer as a success from the standpoint of getting these wise buyers to exchange, but he did not regard it a success

with respect to the balance of the bondholders. However, from the over-all standpoint, he thought that it was a success and that the Railroad's credit position had been materially improved. As to what led to the Board's declaring a Common dividend in January of 1950, he indicated that there was a feeling that with the insurance companies being willing to exchange their Bonds and they being such wise buyers, the Railroad was "over what might be termed a financial hump" in the long road back from 1937 to the end of 1949. He felt that the Railroad had reached a point in its program where, while it was not "entirely out of the woods," he did "see daylight from my point of view." And in the *Guttmann* case,* Stetson further testified:

* United States District Court Judge Galston found in the *Guttmann* case on the testimony quoted herein and in Appendix A and other testimony and evidence that the policy of the management and Directors was sound, and that proper discretion was exercised. The Court said:

> There then remains for determination the question whether discretion was justifiably exercised in the instant case. The matter is not one of simple arithmetic, as the plaintiff would have us believe. The net earnings must be integrated with other dominant considerations. First of all there are matters arising out of the economy of the nation as it survived the depression period; the abnormal industrial activity which had its beginning at the outbreak of World War II, even before we entered the war ourselves; the necessity for planning ahead with a knowledge of increasingly high labor and commodity costs; the uncertainty as to the duration of the war and what its effect would be on the economy of the nation; whether a depression period would set in following cessation of hostilities, and if so, when; what the nature and extent of such depression would be, together with other related general economic conditions, including increasing statutory control or supervision of industry. Specifically, in addition to the foregoing economic variables or indeterminants, the defendant was concerned with its own particular problems. First of all was its obligation to continue as a going concern. That it owed not only to its shareholders and bondholders, but primarily to the people of the State of Illinois. It had acquired a charter from that State to operate a railroad. The grant of the charter necessarily imposed obligations upon the railroad company to the people of the State of Illinois. Those obligations obviously included the continued operation of the road for the convenience of the public, and likewise entailed the necessity for safe operation. To continue as a going concern two important considerations confronted the board of directors. One was the physical up-keep; the other was its financial ability to meet its obligations.
>
> Its physical properties were in bad shape. Likewise its financial structure, and its weaknesses and pressing necessity for improvement, were described by the president, the chairman of the board, and other directors. They acted in their best judgment, indeed seeking financial advice from other

Q. Mr. Stetson, looking back over that period of 1939 down to 1949, when your successful exchange offer occurred, from your knowledge of the road during the period, from your knowledge as a banker, do you believe that that exchange offer in 1949 could have been a success without the intervening bond purchasing program? A. Definitely not.

Wayne A. Johnston, in commenting on the 1949 Offer of Exchange, testified that he was also of the opinion that the Offer of Exchange was a success, but that it would not have been if the bond-purchasing program had not preceded it.

In December 1949, a further Offer of Exchange was made whereby Consolidated Mortgage Series C Bonds (due in 1974)

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experts in the field of finance in order to make their own conclusions doubly certain. . . .(91 F. Supp. 285, pp. 297-298.)

The findings of the District Judge were unanimously affirmed by the Court of Appeals for the Second Circuit (189 F. 2d 927) and the United States Supreme Court denied certiorari (342 U.S. 867). (Davis Polk Wardwell Sunderland & Kiendl—John W. Davis, Theodore Kiendl, S. Hazard Gillespie, Jr., and Francis W. Phillips—counsel for defendant, Illinois Central Railroad Company.)

The United States Court of Appeals for the Second Circuit, in unanimously affirming the District Court, said through Circuit Judge Frank, 189 F. 2d 927, at p. 928:

> The trial court's findings of facts—which are amply supported by the evidence and unquestionably are not "clearly erroneous"—establish that the directors acted well within their discretion in withholding declarations of dividends on the non-cumulative preferred stock up to the year 1948. In so holding, we assume, *arguendo*, that, as plaintiff insists, the standard of discretion in weighing the propriety of the non-declaration of dividends on such preferred stock is far stricter than in the case of non-declaration of dividends on common stock. For, on the facts as found and on the evidence, we think the directors, in not declaring dividends on the preferred in the years 1937-1947, adopted a reasonable attitude of reluctant but contingent pessimism about the future, an attitude proper, in the circumstances, for persons charged, on behalf of all interests, with the management of this enterprise.[2]

In footnote 2 the Court of Appeals said:

> That the directors were not acting in the interest of the common stockholders in disregard of the interest of the preferred appears from the following: The Union Pacific Railroad holds about 25% of the outstanding common stock (i.e., 348,700 shares out of a total of 1,357,994) and was therefore pretty obviously in control of the Board of Directors. Yet, that same Railroad holds about 52% of the outstanding preferred shares (i.e., 98,270 out of a total of 186,457). Union Pacific would plainly be better off if the plaintiff were successful in this suit.
>
> The interest of the public was involved in the reduction of funded debt. For railroads with excessive fixed charges, in periods of stress tend to skimp maintenance and not to improve service.

were offered for certain Bonds maturing in 1953, and $3,220,000 principal amount of these Bonds were exchanged.

In connection with the Railroad's debt reduction program from 1939 through 1949, its Directors sought and obtained the advice and recommendations of Kuhn, Loeb & Co. acting through George W. Bovenizer, a partner experienced in railroad finance; the Guaranty Trust Company of New York; and the Continental Illinois National Bank & Trust Company. They also got the suggestions of Jesse H. Jones, then Secretary of Commerce and head of the Reconstruction Finance Corporation; Commissioner Charles D. Mahaffie of the Interstate Commerce Commission; Pierrepont V. Davis, President of Harriman Ripley & Co. Incorporated; his associate, T. Herbert Shriver; Henry C. Breck of the Union Securities Company; and others. In fact, the use of railroad funds for reducing indebtedness, with a consequent saving in interest, rather than for the payment of dividends, was expressly urged and endorsed by the Interstate Commerce Commission in 1942.

As a result of the creation of the new Consolidated Mortgage in 1949 and the successful exchange of long-term Consolidated Mortgage Bonds for early-maturing prior lien Bonds, the credit position of the Railroad was materially improved because investor acceptance of its long-term financing medium had been established and because its short-term debt problem had been eased by the amount of the exchanges. The Railroad had practically surmounted its financial difficulties insofar as the indebtedness maturing in the early 1950's was concerned.

DEBT SIMPLIFICATION AND REDUCTION 1950 TO 1952

By 1950, the principal amount of Bonds maturing in that year had been reduced to $1,853,000, consisting of two issues which were retired as they matured. In addition, in 1950, the Railroad purchased about $7,128,400 of Bonds maturing between 1951 and 1955.

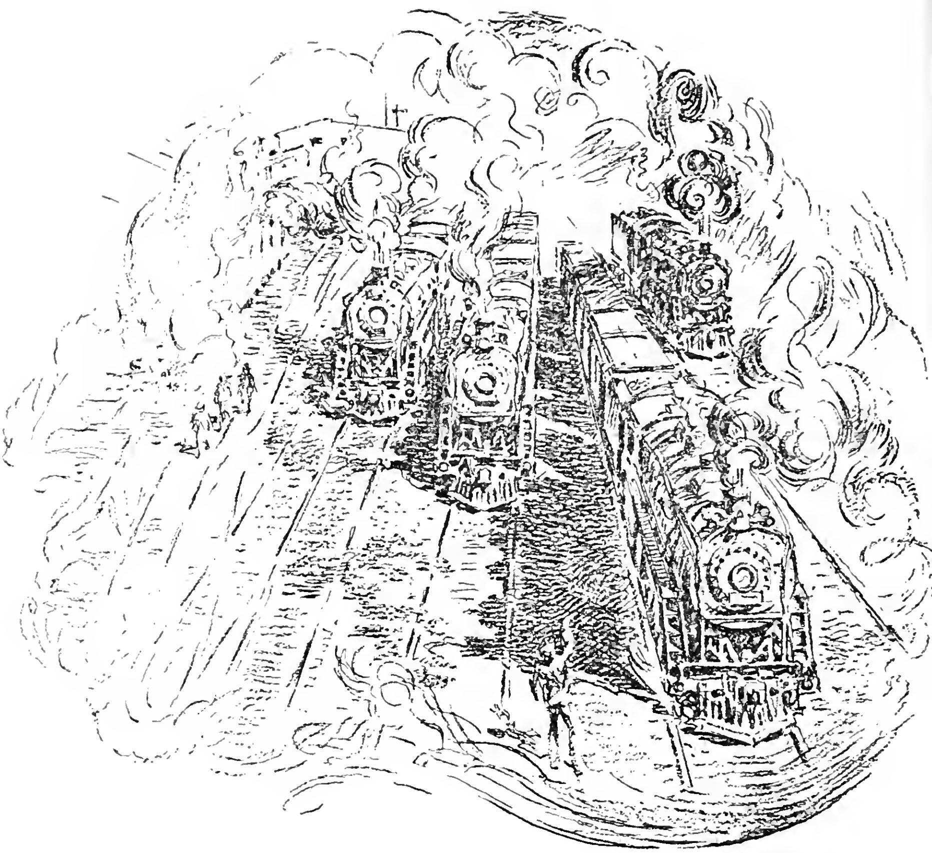
In 1951, the Railroad retired $12,546,000 principal amount of Bonds consisting of fourteen issues maturing in that year and

purchased about $2,229,000 principal amount of Bonds maturing between 1952 and 1955. As a result, as of March 25, 1952, there were outstanding $26,684,500 of Bonds due from 1952 through 1955 in addition to $62,107,820 principal amount of Joint Refunding Mortgage Bonds, Series A, B, C, and D, due December 1, 1963. During 1952, the Illinois Central was able to make provision for the retirement of all these Bonds by the issuance of additional series of Bonds under the Consolidated Mortgage, and the use of $8,682,332 of treasury funds for debt principal payments, including call premiums.

Sale of Series D Consolidated (First) Mortgage Bonds

The Company, by entering into purchase agreements dated May 29, 1952, with seven insurance companies, assured its being able to pay or acquire all its remaining outstanding early-maturing Bonds ($26,684,500 as above stated maturing in 1952 through 1955).

By these purchase agreements, it was given (1) the right to sell (and it sold) at their principal amount and accrued interest on June 5, 1952, an aggregate of $13,000,000 of Consolidated Mortgage Thirty Year 4¼% Bonds, Series D, to seven insurance companies, and (2) the right to sell not exceeding $12,000,000 principal amount thereof on or about April 1, 1954, at their principal amount and accrued interest. The $13,000,000 of Series D Bonds were sold to provide funds which, together with other funds in the treasury, permitted the Company to pay at maturity or purchase all of the $13,479,500 principal amount of Bonds maturing between April 1, 1952, and the end of 1953, and all of the indentures securing these Bonds were satisfied by September 17, 1952. At the time of the making of these purchase agreements, it was the intention, and was so provided, that the $12,000,000 of Series D Bonds which the Railroad had a right to sell in 1954 were to be sold in order to provide the Railroad with funds to the extent necessary to enable it to purchase or pay at maturity the principal amount of Refunding Mortgage Bonds maturing November 1, 1955, and then outstanding in the amount of about $12,000,000.



Sale of Series E Consolidated (First) Mortgage Bonds

Immediately upon the completion of the Series D financing in June 1952, consideration was given to the advisability of issuing $75,000,000 principal amount of Consolidated Mortgage Series E Bonds, the proceeds to be used toward the redemption of (1) the $62,107,820 principal amount of Joint First Refunding Mortgage Bonds due in 1963 and (2) the Refunding Mortgage Bonds due in 1955. The wisdom of attempting such financing was the subject of many conferences with representatives of Kuhn, Loeb & Company, Harriman Ripley & Company, and Union Securities Corporation, all financial advisers of the Railroad, and with one of the insurance companies holding a large amount of the Railroad's Bonds. The advice received indicated that the Series E Bonds could probably be sold at a better price by the Railroad to underwriters on a negotiated contract for public distribution than by sealed public bidding. During the course of these discussions the Interstate Commerce Commission's order with respect to exemption from competitive bidding on an Atlantic Coast Line application* appeared, containing language so broad as to preclude any advance negotiations or discussions generally by any applicant for exemption. It was felt necessary to secure clarification from the Commission. A conference with Commissioner Mahaffie led to the decision (1) to sell $62,000,000 principal amounts of Bonds, instead of $75,000,000, and (2) to hold discussions with certain other investment bankers including Halsey, Stuart & Company, Morgan Stanley & Company, and the First Boston Corporation. In view of the fact that two investment houses confirmed the advice of the Company's financial advisers, Kuhn, Loeb & Company, Harriman Ripley & Company, and Union Securities Corporation, that a better price could be received on a negotiated contract than at sealed public bidding, an application for exemption of $62,000,000 of Series E Bonds from sealed public bidding was prepared and filed on July 11, 1952. Because interventions were

* *Atlantic Coast Line Railroad Company Competitive Bidding Exemption,* Finance Docket No. 17748 decided June 18, 1952.

made to the Commission in opposition to the application, the matter was set for hearing; and the hearing and subsequent proceedings eventuated in an order of the Commission dated August 18, 1952, denying the application, which was received in New York on August 20th.

The Illinois Central deemed it imperative to have a purchase contract signed some days in advance of the first date required for publication of the redemption notice for the Joint First Refunding Mortgage Bonds (i.e., September 1, 1952). An Executive Committee meeting was held on August 20th at which it was decided to invite bids at sealed public bidding to be received on August 27, 1952. Invitations to bid were accordingly sent out on the 20th, and on the 27th bids were received from a group headed by Halsey, Stuart & Company and from a group headed by the three investment houses which had been advisers to the Railroad. The Railroad accepted the highest bid, that of the former group, 97.347 for 3⅞% Bonds, and, on the basis of this contract, called for redemption on December 1, 1952, the $62,107,820 principal amount of Joint Refunding Mortgage Bonds. The $62,000,000 principal amount of Consolidated Mortgage 3⅞% Bonds, Series E, were sold pursuant to contract on September 25, 1952, at which time a satisfaction of the lien of the Joint First Refunding Mortgage was delivered, the securing of satisfactions of all other prior lien mortgages except the Refunding Mortgage having been completed in anticipation of such closing.

With the sale of the Series E Bonds, the funded debt of the Illinois Central had been reduced by December 31, 1952, to an aggregate amount of $204,324,000, consisting of the following three funded debt issues and equipment obligations: (1) $103,857,000 aggregate principal amount of Consolidated Mortgage Bonds* (not including the $12,000,000 Series D Bonds to be sold in 1954 to refund, on or before 1955, the Refunding Mortgage Bonds which were outstanding in the amount of $11,899,000 principal amount on December 31, 1952), (2) $34,743,000 principal amount of Forty Year (Debenture) 4¾% Bonds due 1966, and (3) $735,000 principal amount of Chicago,

* Consisting of Series A due 1979, $3,972,000; B due 1979, $5,519,000; C due 1974, $19,366,000; D due 1982, $13,000,000; E due 1982, $62,000,000.

Memphis, & Gulf Railroad Company 3% Bonds, due 1962, and, as of December 31, 1952, $53,090,000 principal amount of that railroad's equipment obligations.

REFUNDING OF DEBT AT FAVORABLE INTEREST RATES FROM 1952 TO MAY 1955

Sale of Series F Consolidated (First) Mortgage Bonds and the Redemption of the $34,743,000 Forty Year 4¾% Debentures

In the fall of 1953, interest rates had considerably improved and the Railroad's earnings had continued to improve to the extent that it decided to discuss with its bankers the practicability of selling on favorable terms a new series of Consolidated Mortgage Bonds. The proceeds from this sale, together with the proceeds of the sale of the $12,000,000 of Series D Bonds, which the insurance companies were under contract to purchase on April 1, 1954, and such additional treasury funds as were necessary, would be applied to call on December 1, 1953, for redemption on February 1, 1954, the $34,743,000 of the Company's Forty Year 4¾% Debentures. The bankers advised that it was practicable to sell Consolidated Mortgage Thirty Year Bonds, Series F, in December and that about $15,000,000 of them could be sold on favorable terms. In view of the above-mentioned purchase contracts providing that the Railroad could sell the Series D Bonds on April 1, 1954, negotiations between the bankers and the Railroad's officers led to the recommendation that the Railroad not try to sell such Bonds on February 1, 1954, when it would need the money towards paying the Debentures. Instead, it was advised to negotiate a bank commitment for a two-month loan of $12,000,000 on a note to be dated February 1, 1954, to mature on April 1, 1954, to bear interest at the bank's prime interest rate on February 1, 1954, and to be secured by the pledge of $12,000,000 of Series D Bonds, such note to be paid by the proceeds of the sale of said Series D Bonds to the insurance companies on April 1, 1954. Such a commitment was negotiated with a bank under date of November 24, 1953. In view of the fact that the time schedule then

under consideration required the start of the call of redemption of the Debentures on December 1, 1953, which would be prior to the receipt of the proceeds of the sale of the Series F Bonds (and of the Series D Bonds), another commitment was negotiated with the bank also dated November 24, 1953. In this commitment, the bank agreed that upon request of the Railroad on February 1, 1954, it would lend $15,000,000 on the Railroad's note to mature in one year or less, to bear interest at the rate of 3¼% per annum, and to be secured by the pledge of $15,000,000 of Series F Bonds and short-term United States Government obligations continuously having a value equal to 20% of the loan. An Invitation to Bid dated December 11, 1953, for the Series F Bonds was issued by the Railroad requesting bids on December 21, 1953. At that time, four bids were received, all for bonds bearing a proposed interest rate of 3¾%, the bids being at prices which would result in net interest costs to the Railroad ranging from about 3.79% to 3.86%. The Railroad accepted the best bid, which was only 3.79%, whereas the net cost to the Company for the Series E Bonds had been about 4.03%. The $15,000,000 of Series F Bonds were sold on January 15, 1954, and the proceeds were deposited on February 1, 1954, with the trustee of the Debenture Indenture, together with the $12,000,000 proceeds of the bank loan received on that date and other Company funds sufficient to redeem the Debentures on February 1, 1954, at the redemption price of 102½% and accrued interest.

The Debentures were redeemed; and on April 1, 1954, the $12,000,000 of Series D Bonds that were pledged as security for the two-month bank loan were sold to the insurance companies pursuant to the May 29, 1952, purchase contracts and the two-month bank loan was paid.

Sale of Series G First Mortgage Bonds to Refund Consolidated Mortgage Series D Bonds

As interest rates generally continued to improve for financing purposes, the Board of Directors of the Railroad in May 1954*

* At the annual meeting of stockholders held on May 19, 1954, charter amendments were approved to change the Common Stock of the Company from

authorized the sale of a new series of Bonds (Series G) in an amount sufficient to refund the $25,000,000 of Series D Bonds, which carried a 4¼% interest coupon. The Consolidated Mortgage contained a provision that following the satisfaction of the Company's Joint Refunding Mortgage (which was satisfied on September 25, 1952, in connection with the sale of the Series E Bonds) and the satisfaction of the Refunding Mortgage, Bonds of any series issued under the Consolidated Mortgage (other than Series A, B, and C) could be entitled "First Mortgage Bonds." Accordingly, the Company requested the trustee of the Refunding Mortgage to satisfy this Mortgage, which it did under date of July 8, 1954, following deposit of funds by the Railroad and an agreement by the Railroad to keep currently on deposit with the trustee an amount equal to 105% of the sum of (1) the principal amount of Refunding Mortgage Bonds outstanding and (2) the interest thereon to November 1, 1955.

THE EDGEWOOD CUT-OFF

The Indenture under which the Forty Year 4¾% Debentures had been issued provided that so long as the Debentures were outstanding, the Railroad would not subject to any lien the so-called Edgewood Cut-Off, owned by the Southern Illinois & Kentucky Railroad Company, a wholly owned subsidiary of the Railroad, unless the Debentures were given an equal lien on this property. The Edgewood Cut-Off is a line of railroad about 127 miles in length, running from Edgewood in Effingham County, Illinois, to Metropolis Junction in Massic County, Illinois. The Consolidated Mortgage provided that upon the satisfaction of the Debenture Indenture, the Railroad would subject the Edgewood Cut-Off to the lien of the Consolidated Mortgage. Accordingly, the Railroad applied to the Interstate Commerce Commission for permission to acquire the properties of the Southern Illinois & Kentucky Railroad Company, and the Commission on June 3, 1954, authorized such purchase.

$100 par value to stock without par value and to split it two shares for one share, and to split the $100 par value 6% Preferred Stock two shares for one share, making the par value of the new shares $50 per share.

The purchase was accomplished on July 1, 1954, and a Supplemental Indenture of that date was delivered to the trustee of the Consolidated Mortgage conveying the Edgewood Cut-Off.

ISSUE AND SALE OF $25,000,000 SERIES G FIRST MORTGAGE BONDS

With the satisfaction of the Refunding Mortgage and the conveyance to the Railroad of the Edgewood Cut-Off, the Consolidated Mortgage had become a first lien on all of the Railroad's owned mileage at that time an aggregate of 5,955.30 miles. This was stated in the circular for the Series G Bonds, which were called First Mortgage Twenty-six Year Bonds, Series G. An Invitation to Bid for $25,000,000 was issued by the Railroad on July 13, 1954, and on July 29, 1954, four bids were received, all for bonds bearing a 3¼% coupon, the bids being at prices which would result in net interest costs to the Railroad ranging from about 3.316% to 3.34%.

The best bid, which involved a cost of 3.316% to the Railroad, was accepted. It will be noted that the interest cost to the Railroad of about 3.32% contrasted with the very much higher costs of the series issued only a few years before, particularly the Series D 4¼% Bonds.

Sale of Series H First Mortgage Bonds to Refund the Consolidated Mortgage Series E Bonds

While steps were being taken for the closing on August 25, 1954, of the sale of the First Mortgage Series G Bonds, consideration was given to the question of whether the outstanding Consolidated Mortgage Series E Bonds then reduced to $60,628,000 could be refunded by a new series bearing an interest rate comparable to the 3.32% rate of the First Mortgage Series G Bonds. The Board of Directors of the Railroad decided to offer at competitive bidding $60,000,000 of First Mortgage Series H Bonds, and under date of August 27, 1954, an Invitation to Bid was sent out by the Railroad, bids being requested for September 9, 1954. Two bids were received for Bonds bear-

ing a 3⅜% coupon rate, one at a net interest cost to the Railroad of about 3.41% and the other at a cost of about 3.44%.

The best bid was accepted by the Railroad and the Consolidated Mortgage Series E Bonds were called for redemption on November 1, 1954.

After giving effect to the redemption of the Series E Bonds, the total funded debt including equipment obligations had been reduced to $191,131,000 as of September 30, 1954, a reduction of $192,147,272 or 50% from the $383,278,672 of debt at the close of 1927. Whereas there were 33 issues other than equipment obligations in 1927, the funded debt on September 30, 1954, consisted only of Consolidated (First) Mortgage Bonds, and the small Chicago, Memphis & Gulf issue, aggregating $129,223,000. This contrasted with comparable debt in 1941 of about $328,000,000 consisting of about 30 issues.

Issue and Sale of Twenty-five Year 3½% Sinking Fund Debentures and the Redemption of the 6% Preferred Stock, Series A

During 1954, consideration was from time to time given to the desirability of replacing the 6% Preferred Stock, Series A, with Debentures carrying a favorable interest rate. This was because of the saving that could be secured for the Railroad by its being able to have the benefit of the interest on Debentures as a deductible expense for income tax purposes in contrast to the Railroad's having to pay income tax on the funds used to pay dividends on the Preferred Stock. Following the sale of the First Mortgage Series H Bonds, the Board of Directors in November decided to offer for sale at competitive bidding $18,000,000 of Twenty-five Year Sinking Fund Debentures which would carry a sinking fund of $800,000 a year beginning January 1, 1959, and running to January 1, 1979. The amount of this sinking fund was a rough estimate of the amount of tax saving each year if the Preferred Stock were called for redemption and if the Debentures were issued for the purpose of providing funds towards such redemption. At the same time, the

Railroad decided to call on December 30, 1954, the Preferred Stock for redemption on March 1, 1955, provided a favorable contract could be made for the sale of Debentures. Invitations to Bid were accordingly sent out on December 1, 1954, requesting bids for December 15, 1954. Four bids were received for the Debentures. Three of the bids were for coupon rates of 3½% and at prices which would result in net interest costs to the Railroad ranging from about 3.55% to 3.60%, the fourth bid being for a coupon rate of 3⅝% and at a cost to the Railroad of about 3.64%.

The best bid was accepted by the Railroad and the Preferred Stock was called for redemption on the basis of that bid. The Debentures were sold on January 6, 1955.

The Preferred Stock was by its terms convertible share for share into Common Stock up to the close of business on January 31, 1955. By that date, only 5,925 Preferred shares were unconverted into Common shares, and redemption of these shares required only $343,650. Of the proceeds, $12,533,000 was used to reacquire at their principal amount $12,533,000 of Debentures. The remaining proceeds of the sale of the Debentures after payment of the redemption price of such outstanding Preferred Stock accordingly became available for "capital purposes" in accordance with the Interstate Commerce Commission's order approving the issuance and sale of the Debentures.

Assuming the sale of the Debentures as of December 31, 1954 (less the $12,533,000 repurchased), the aggregate funded debt of the Railroad including equipment obligations of $59,114,000 was $194,096,000. The annual interest on funded debt, which was $16,905,137 in 1927, was reduced to $6,353,519 as of December 31, 1954, a reduction of about 62%.

The first table following shows, for the years from the end of 1941 through 1954, the funded debt exclusive of equipment obligations, equipment obligations, the total funded debt, and interest on the funded debt. The second table is a list of the issues which were outstanding in 1941.

THE SUCCESS OF THE DEBT REDUCTION AND DEBT SIMPLIFICATION PROGRAM IS GRAPHICALLY SHOWN BY THESE TABLES AS WELL AS

BY THE MAP ON THE INSIDE OF THE COVERS HEREOF, AS OF THE END OF 1954, PICTURING A SINGLE MORTGAGE NOW COVERING SUBSTANTIALLY ALL OF THE LINES OF THE SYSTEM.

As heretofore indicated, however, it is contemplated that if interest rates are sufficiently favorable hereafter, the Railroad may well be able to refund the Series F Bonds, which carry a 3¾% coupon, and the Series A, B, and C Bonds, which after November 1, 1955, will carry 3¾% coupons, the coupons presently being at higher rates because of the terms of the Offer of Exchange under which these Bonds were originally issued.

December 31 of:	*Funded Debt Exclusive of Equipment Obligations*	*Equipment Obligations*	*Total Funded Debt*	*Interest on Funded Debt during Year Ended*
1941	$328,028,665	$40,574,000	$368,602,665	$15,046,053
1942	307,876,325	34,518,000	342,394,325	14,549,177
1943	263,627,005	41,912,214	305,539,219	13,203,352
1944	245,798,305	36,311,720	282,110,025	11,827,501
1945	225,634,970	31,182,995	256,817,965	11,217,739
1946	215,822,170	26,052,000	241,874,170	10,424,456
1947	204,843,970	24,752,000	229,595,970	9,801,627
1948	184,950,670	49,036,000	233,986,670	9,361,575
1949	180,852,705	57,819,000	238,671,705	9,486,415
1950	168,276,615	47,991,000	216,267,615	9,140,722
1951	153,374,220	52,219,000	205,593,220	8,538,970
1952	151,234,000	53,090,000	204,324,000	9,102,379
1953	137,886,000	55,582,000	193,468,000	7,674,628
1954	129,515,000	59,114,000	188,629,000	7,049,582

FUNDED DEBT (EXCLUSIVE OF EQUIPMENT OBLIGATIONS) OUTSTANDING DECEMBER 31, 1941

	Name of Issue	*Maturity*	*Amount Outstanding*
1.	Reconstruction Finance Corporation Note	May 1944	$35,140,000
2.	Reconstruction Finance Corporation Note	Nov. 1950	1,927,660
3.	Illinois Central Sterling Collateral Trust 3½'s	July 1950	5,261,000
4.	Illinois Central Extended 3½'s	Dec. 1950	1,000,000
5.	Illinois Central Cairo Bridge 4's	Dec. 1950	2,944,000
6.	Illinois Central First 3½'s	Jan. 1951	2,482,000
7.	Illinois Central First 4's	Jan. 1951	1,500,000
8.	Illinois Central Litchfield Division 3's	Jan. 1951	3,031,000
9.	Illinois Central Springfield Division 3½'s	Jan. 1951	1,998,000
10.	Illinois Central Sterling 3's	Mar. 1951	2,494,000
11.	Illinois Central Sterling 4's	Apr. 1951	2,493,000

12.	Illinois Central Extended 3½'s	Apr. 1951	2,976,000
13.	Chicago, St. Louis & New Orleans 5's	June 1951	11,251,000
14.	Chicago, St. Louis & New Orleans 3½'s	June 1951	1,359,000
15.	Illinois Central St. Louis Division & Terminal 3's	July 1951	2,228,000
16.	Illinois Central St. Louis Division & Terminal 3½'s	July 1951	7,205,000
17.	Illinois Central Western Lines 4's	Aug. 1951	4,261,000
18.	Illinois Central Omaha Division 3's	Aug. 1951	3,841,000
19.	Chicago, St. Louis & New Orleans, Memphis Division 4's	Dec. 1951	3,228,000
20.	Illinois Central Collateral Trust 4's*	Apr. 1952	14,930,000
21.	Illinois Central Purchased Lines 3½'s	July 1952	10,523,000
22.	Illinois Central Louisville Division & Terminal 3½'s	July 1953	22,231,500
23.	Illinois Central 4's	Nov. 1953	23,037,000
24.	Illinois Central Refunding 4's	Nov. 1955	39,337,000
25.	Illinois Central Refunding 5's	Nov. 1955	13,447,000
26.	Chicago, Memphis & Gulf 3's	Dec. 1962	735,000
27.	Illinois Central–Chicago, St. Louis & New Orleans Joint Refunding 5's A and B	Dec. 1963	46,287,805
28.	Illinois Central–Chicago, St. Louis & New Orleans Joint Refunding 4½'s C	Dec. 1963	15,891,000
29.	Illinois Central Debenture 4¾'s	Aug. 1966	35,000,000
30.	Illinois Central 4% Leased Line Stock Certificates	—	9,989,700

* The Collateral Trust 4's of 1952 were secured by bonds of seven mortgage issues on parts of the Railroad System.

THE CONSOLIDATED (FIRST) MORTGAGE

In creating the Consolidated Mortgage, the Illinois Central sought to establish a mortgage which would, as a result of the refunding of prior lien mortgages, eventually become a single lien on, among other things, the physical properties of the Railroad System other than certain "excepted properties."* This has

* The "excepted properties" included among other things (1) all securities of, or claims of the Illinois Central against, the following three railroad companies, which are excluded because they operate suburban transportation properties in the Chicago area: the South Chicago Railroad Company, Blue Island Railroad Company, and Kensington & Eastern Railroad Company; (2) the Southern Illinois & Kentucky Railroad Company, which owns a so-called cut-off extending from Edgewood to Metropolis, Illinois, which railroad the Illinois Central could not pledge because of a negative pledge covenant in the indenture securing the Debentures referred to above and which now has been merged into the Illinois Central; (3) two leased line railroads, which constitute the line from Shreveport, Louisiana, to Meridian, Mississippi, via Vicksburg; and (4) the Chicago, Memphis & Gulf Railroad Company, which was excluded because the Illinois Central is not a guarantor of the principal of the outstanding Mortgage Bonds on this property—it only guarantees the payment of the interest to the date of

now been accomplished. The Illinois Central needed a modern general mortgage under which prior lien mortgages could be refunded because, for one thing, there were in existence only two general Refunding Mortgages each of which was primarily a junior mortgage covering merely about one-half of the system, the Refunding Mortgage covering the northern half and the Joint First Refunding Mortgage the southern. In order for the Company to be able to approach its 1950-1955 maturities with confidence, it was necessary as set forth above for it to reduce by purchase to the extent it was capable the debt maturing in that period, and in addition it was desirable for it to create a medium which by the end of that period would, if practicable, be close to a first mortgage on substantially the whole system instead of the rather junior mortgage it would be at the start. Accordingly, in setting up the Consolidated Mortgage with a view to having it operate in accordance with the September 15, 1949, Offer of Exchange, the management had in mind that the Consolidated Mortgage should provide as it did for refunding all prior lien Bonds, about $143,000,000 as of that time, as well as, when the Debenture Agreement of 1966 should have been satisfied,** the bonding of additions and betterments upon a sound basis.

IMPROVEMENT IN LIEN, 1949-1955

Under the Consolidated Mortgage, there was pledged, in addition to equipment and other property, the Illinois Central's interest in about 5,850 miles of railroad in the System, but the Mortgage was a first lien on only about 617 miles of railroad and a junior lien of varying degrees on the remainder. As to the southern half of the System, which was owned by the Chicago, St. Louis & New Orleans Railroad Company, the interest pledged by the Illinois Central was that of lessee of the New Orleans Company and as owner of the stock of that company

maturity of such Bonds, which is also the date of the expiration of the lease under which the property is being operated. See map on inside of covers.

** This Agreement contained a negative pledge covenant preventing during the life of the Debentures the issuance of Bonds (other than for refunding) under any new mortgage. As stated above, the Debenture Indenture was satisfied on February 1, 1954.

subject to the lease and to the rights of the holders of a small percentage of Leased Line Stock Certificates then outstanding. In order to see the extent to which this lien position has been improved by the recent financing, by the acquisition in 1951 by the Illinois Central of the properties of the merged Chicago, St. Louis & New Orleans Railroad Company, and by the recent merger with the Illinois Central of the subsidiary owning the Edgewood Cut-Off, the following table is set out showing the mileage covered by the Consolidated Mortgage at the time of its creation and as of December 31, 1954.

	November 1 1949		*December 31 1954*	
	Ohio River		*Ohio River*	
	North	*South*	*North*	*South*
First lien	55	562	2,996	2,957
Second lien, subject to first lien of:				
Refunding Mortgage 4%-5% 1955	181			
Joint Refunding Mortgage 4%-4½%-5% 1963		148		
Western Lines 4% 1951	402			
Omaha Division 3% 1951	133			
Collateral Trust 4% 1953		736		
Litchfield Division 3% 1951	97			
Cherokee & Dakota First Mortgage 5% 1952*	127			
Cedar Rapids & Chicago 5% 1952*	42			
Yazoo & Mississippi Valley 5% 1952*		122		
Third lien, subject to first lien of:				
3%-3½%-4% 1951 (Charter Lines)	705			
Springfield Division 3½% 1951	113			
St. Louis Division & Terminal 3%-3½% 1951	199			
Purchased Lines 3½% 1952	480			
Rantoul 5% 1952*	52			
Chicago, Havana & Western 5% 1952*	130			
Canton, Aberdeen & Nashville 5% 1952*		88		
Louisville Division & Terminal 3½% 1953		646		
Chicago, St. Louis & New Orleans 3½%-5% 1951		563		
Chicago, St. Louis & New Orleans, Memphis Division 4% 1951		97		
Fourth lien, subject to first lien of:				
Chicago, Madison & Northern 5% 1952*	173			
	2,889	2,962	2,996	2,957
		2,889		2,996
Total		5,851		5,953

* Pledged under Illinois Central Collateral Trust 4% 1952.

At the time of the creation of the Consolidated Mortgage, there were pledged $63,685,000 principal amount of various prior lien Bonds and in addition the Bonds which were turned in under the September 15, 1949, Offer of Exchange. By the time of the December 20, 1949, Offer of Exchange, the amount of such prior lien Bond collateral then pledged had increased to $127,984,000 principal amount.

In contrast to the 1949 lien position, with the completion in 1954 of the Series G and related financing the Consolidated Mortgage became, in the opinion of counsel, a first lien on all of the owned mileage, 5,953.26 miles of railroad, subject only to excepted encumbrances as that term is defined in the Consolidated Mortgage. This is shown graphically on the map on the inside of the front cover hereof.

The reduction of the debt structure to practically one mortgage has resulted and will continue to result in substantial benefit to the Illinois Central because of the simplification of the accounting required as contrasted with that required with respect to the numerous mortgages until recently in existence. But by far the most important advantage is the fact that there has thus been created for the Illinois Central a single financing medium with a first lien on practically the whole System, a medium which, as has already been demonstrated, has a higher credit rating. The improvement in the Illinois Central's credit which already has taken place is illustrated by the difference in the cost of money for the Series D Bonds and the Series G Bonds. The Series D Bonds were sold on a 4.25% basis, whereas the Series G Bonds were sold on a 3.32% basis, principally because of the improvement in the lien position of the Consolidated Mortgage by virtue of (1) the satisfaction of some eighteen prior lien issues, (2) continued good earnings, and (3) to some extent a general lowering of interest rates in 1954. It is submitted that the vast improvement in the corporate and debt structure of the Illinois Central, as well as its substantial earning power, has reestablished its credit and reinstated it as one of the top railroad credit risks in the country.

PROVISIONS OF THE CONSOLIDATED (FIRST) MORTGAGE

The Consolidated Mortgage is modern in all respects, and in keeping with the development of railroad mortgages contains many provisions which although protective of the bondholders yet are designed to keep the Railroad from being placed in a strait jacket.

The refunding provisions are usual. In addition to providing for the issuance of Bonds to refund all prior lien Bonds, the Mortgage provides for issuance of Bonds to refund prior debt which may be created in connection with acquisitions of property made after the date of the Mortgage.

The provisions for issuing Bonds to capitalize expenditures for improvements and the like are somewhat unusual. Whereas many years ago railroads were generally permitted under their mortgages to bond additions and betterments for 100% of cost, as distinguished from depreciated value at the time of bonding, modern railroad mortgages have in general been tightened up greatly so as to permit the bonding only of *net* additions and betterments and then only to the extent of 75%, 66⅔%, and in at least one case 50% thereof. The bonding provisions of the Consolidated Mortgage in this respect (which became operative upon the retirement of the Company's 4¾% Bonds due in 1966) permit the bonding to the extent of 66⅔% of the gross expenditures for acquisition or construction of lines of railroad, branches, or extensions or lines of motor, air, water, or pipe line transportation, and the bonding to the extent of 66⅔% of the net expenditures generally for additions and betterments other than equipment and those above described, in both cases on a cumulative basis.

The Mortgage provided that the Illinois Central could issue $36,953,000 of "free" or "forthwith" Bonds. This was partly a recognition of the great reduction in bonded debt which had been accomplished by the time the Mortgage was created. The $15,000,000 of Series F Bonds were issued as forthwith Bonds, so that there now remain $21,953,000 of Bonds which, if it

should need to borrow and is for any reason unable to do so under any other provision of the Mortgage, the Illinois Central will be able to issue merely upon requesting the Mortgage trustee to authenticate and deliver them.

The Mortgage contains a covenant whereby the Illinois Central will not at any time pledge Consolidated Mortgage Bonds to secure other indebtedness beyond certain limitations spelled out in the Mortgage. This provision is designed to prevent the Bonds from time to time sold by the Illinois Central from being substantially diluted in case of bankruptcy where the holder of another obligation secured by a very much larger amount of Consolidated Mortgage Bonds might be able to prove a claim on the basis of the pledged Bonds, a problem which arose in many of the railroad reorganizations of the 1930's.

Also in accordance with recent practice, the Mortgage provides for a sinking fund, providing for the Series A, B, and C Bonds and by virtue of the Supplemental Indentures creating them the Series F, G, and H Bonds. This is an annual sinking fund of 1% of the aggregate principal amount of the Bonds of these series theretofore authenticated and delivered, payable if earned in the preceding calendar year.

While the Consolidated Mortgage is a lien on all equipment owned at the date thereof, or thereafter acquired subject to existing Equipment Trust obligations, additional Bonds cannot be issued with respect to equipment purchased or increases in the equity in equipment owned subject to equipment obligations. It provides, as most modern railroad mortgages do, because of the experiences of various of the reorganized roads in recent years, that it may be subordinated to enable the Illinois Central to refinance any equipment agreement or to comply with the provisions of any existing equipment agreement and also may be subordinated, within five years after acquisition of such equipment, to any equipment agreement created in respect to equipment acquired after the date of the Mortgage.

The Mortgage also provides that with certain limitations the provisions may be modified with the approval of the holders at any time of 66⅔% of the Bonds outstanding which would be

affected by such modification. The recent history of railroad reorganization demonstrates the desirability of a company's being able to request of its bondholders changes made necessary or desirable by the passage of time.

CONCLUSION

While the depression of the 1930's presented a severe test of the ability of the Illinois Central to handle its cumbersome funded debt structure, yet this was but the result of a reversal of the trend of the previous decade when this debt had been greatly increased to take care of the large outlays made to expand and improve the Railroad. In fact, if it were not for the expenditures made in the 1920's for these improvements, the Illinois Central could never have handled the capacity traffic tendered to it in World War II. Nevertheless, the lesson taught by the depression was the need both for reduction and for simplification of debt structure.

The foregoing shows how well both objectives have been realized. Not only has the Company slashed its funded debt to manageable proportions, but it has created a single medium by which it can handle its future financing. Through this medium it can now raise money for any proper corporate purpose. The Illinois Central can now face its future financial problems with confidence.

It is obvious that in reference to the future of the Illinois Central, as well as the present, its debt reduction and capital simplification are, and increasingly will be, very important factors in reaching conclusions as to financing, working capital, income reserves, and capital distribution, as to setting aside reserves for taxes, interest, and sinking funds, and as to arriving at a fair and proper amount that can be distributed as dividends to the shareholders.

During the last two decades, and particularly during the period since 1946, every effort has been made to put the Railroad in sound financial condition. This, it is believed, has been accomplished. It is submitted that the action over this period, detailed in the foregoing, warrants this conclusion.

It would appear that not only has there been normal maintenance, but the percentage of bad-order equipment, which is now less than 2%, has been decreased; and this is reassuring. As hereinbefore detailed, the Railroad has provided sinking funds on its debt issues, but it is fortunate in having also provided, through acquisition and otherwise, sufficient Bonds to take care of the sinking fund requirements for several years to come.

Clearly, action on the part of the management and of the Board of Directors as set forth above demonstrates an earnest desire to do all that may properly and reasonably be done in behalf of the stockholders. The public interest is paramount in any consideration of what may fairly and properly be distributed as dividends. As hereinbefore set forth, dividends were restored on the Common Stock following the restoration of dividends on the then-existing Preferred Stock. The *Guttmann* litigation created a situation in which no action could be taken in respect to payment of dividends on the Common Stock until the question was settled as to whether the Railroad would have to provide a substantial amount of cash in response to this threatened claim, which might well have so affected, had it been successful, the cash situation of the Railroad as to have seriously interfered with the purchase of Bonds and the simplification of the capital structure of the Railroad. As soon as the litigation was terminated successfully in the United States Supreme Court, in favor of the Railroad, as hereinbefore stated in more detail, dividends were resumed on the old $100 par value Common Stock, first at the rate of 3%, and then a year later at 4%, a year later at 5%, and more recently at a rate equivalent on the old Stock to 6%—3% having been paid on the Stock after its split into two shares for one in May of 1955.

It thus appears that the sound debt structure of the Railroad permits the directors to do what they have conscientiously been desirous of doing for several years, which is to give the fullest consideration to the distribution of such amount on the Stock as the financial situation of the Railroad could reasonably permit. The answer as to just what that amount is, is a very complex one. There must be taken into account many factors. Perhaps

the first among them is the annual requirements for expenditures in maintenance of road and equipment and the purchase of new motive power. The following table is informative on the subject of the amounts of these requirements during the relatively recent past:

Year	*Gross Expenditures for Road & Equipment*	*Year*	*Gross Expenditures for Road & Equipment*
1947	$17,576,663	1951	$31,093,985
1948	23,640,705	1952	21,272,115
1949	38,157,212	1953	20,558,803
1950	18,465,488	1954	23,869,541

The average for the eight years given above is $24,329,314.

It is important that these expenditures be carefully analyzed and classified as to whether they are extraordinary or normal. Any such consideration might reach the conclusion that a fair approximate annual figure as of the present time and as of the foreseeable immediate future is in the neighborhood of $20,000,000.

In this connection, it should be borne in mind that depreciation in 1954 supplied about $13,400,000 in cash. In any such consideration there must be taken into account what is often described as "economic" depreciation, as distinguished from "accounting" depreciation, which has been increasing.

In studying what may be described as "cash flow," which gives a dollar result, a portion of which may be properly distributed as dividends, there must first be determined what are the normal property expenditures required to be made. When this determination is made, consideration must be given to material and labor costs and as to whether or not they are reasonably stable. Only after giving consideration to these factors may a reasonably accurate conclusion be arrived at. Earnings, of course, must first be set aside for such purposes.

As sinking funds have been provided for and have been currently provided, as shown above, there remains an estimated amount of earnings out of which to pay dividends in the amount thus to be determined. Of course, the determination as to what amount can be properly paid on the Common Stock, now that

the Railroad's Preferred Stock has been retired, presents a problem which, after taking into account all of these factors, among others, resolves itself into one of judgment based upon experience and the knowledge of the transportation and economic situation of the country and of the territory served by the Railroad.

The problem of making this determination in the public interest and in the interest of the holders of debt and the holders of the Capital Stock is quite different for a railroad, by reason of its being in effect a public utility, from what it is for an industrial company, such as an automobile company.

It is reported that Mr. Alfred Sloan has publicly stated that it is the policy of General Motors to pay dividends equivalent to about 75% of earnings. It is thought by the management of General Motors and others that such a policy is eminently fair to stockholders. It is also a matter of general knowledge that the average electric public utility company distributes by way of dividends between 70 and 75% of its earnings while earning less than the Illinois Central has earned on its invested capital.

Conservatively, it may be assumed that the right answer lies between 50 and 75% depending upon the special needs of the property in regard to maintenance and debt financing. Probably the percentage of earnings to be declared out in dividends is generally nearer 55 or 60%.

In dealing with the income of the Illinois Central, the following statement of reported net income is significant:

Year	*Reported Net Income*	*Excess or (Deficit) of Rep. Net Income vs. Av. Net Income*	*Excess of Reported Net Income over 60% of Av. Net Income*
	thousands of dollars		
1947	$15,039	$(6,425)	$ 2,161
1948	20,949	(515)	8,071
1949	16,328	(5,136)	3,450
1950	29,412	7,948	16,534
1951	18,398	(3,066)	5,520
1952	23,204	1,740	10,326
1953	26,369	4,905	13,491
1954	22,014	550	9,136

The average net income for the last eight years is $21,464,000
60% of such average net income for the last eight years is $12,878,000

Thus, 60% of the average net income for the past eight years is equal to about $4.18 per share on the basis of the 3,082,945 shares presently outstanding. But there are many things to consider before the management and Board may feel justified in declaring the present $3 dividend on the split Stock or $6 on the old $100 Stock.

Attention has been aptly called to the fact that a railroad, as a public service and utility company, is in quite a different category than an industrial company or a bank with respect to the amount of earnings that may be safely distributed. The industrial company like an automobile company may overnight increase the selling price of its product, whereas the railroad company must apply to the Interstate Commerce Commission for an increase in rates, and if increased rates are granted, it may be a substantial period of time before they can be put into effect. In many cases, a bank can safely and properly distribute as dividends as high as possibly 75% or even more of its income. This is particularly true when the bank is not confronted with any substantial capital, maintenance, or other unusual expenditures which must be paid out of earnings.

The conscientious director of a transportation company is constantly endeavoring to weigh the foregoing and similar factors in order that he may fairly and properly distribute to the stockholders the amount of income that they are entitled to receive.

In this connection, the appraisal of these factors results in the endeavor to arrive at some formula. True, it can never be an exact formula, since it is based upon forecasts of earnings and expenses and financial obligations which have to be met. This inexact but helpful formula is often described, as heretofore stated, as the "cash flow" forecast. All of the factors must be weighed in the light of past experience and probable future conditions. Paramount among these considerations is the public interest.

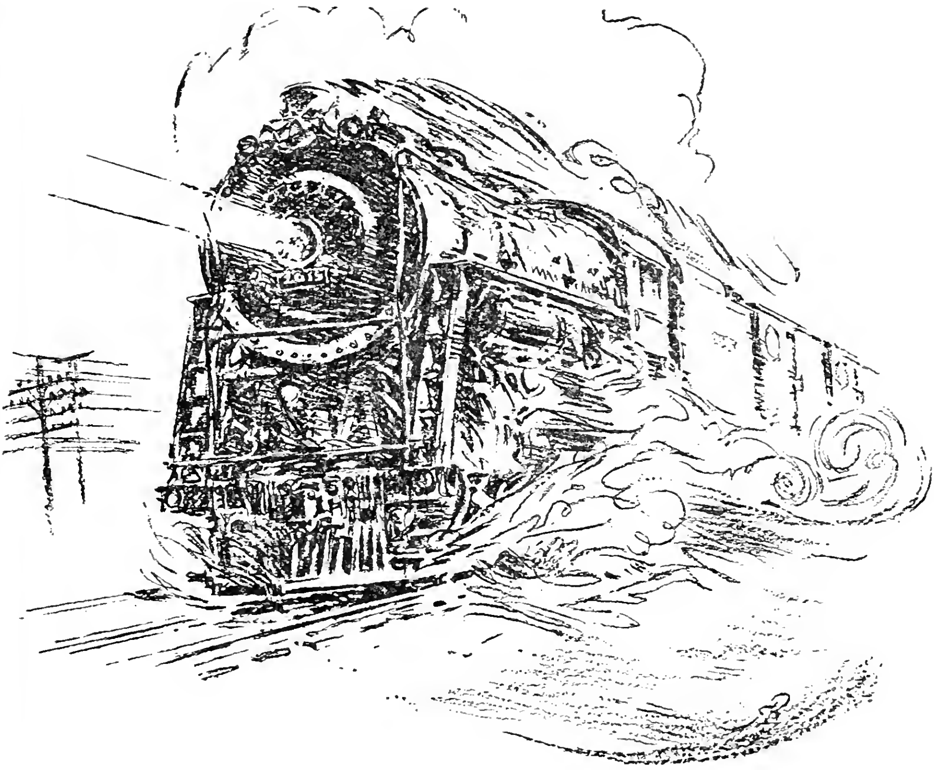
Obviously, an important factor, if not now the most important factor, is what relief may properly be accorded by the Congress in the elimination of unrealistic rate and other controls by

reason of the railroad industry's having long since ceased to be monopolistic, which it was some fifty or more years ago.

The foregoing reference to the report of the President's Transportation Committee clearly indicates that relief must be accorded the railroads in this connection so that they can compete with subsidized competitors such as trucks, waterways, and airplane companies.

The railroads are not asking for subsidies. If they can be given fair treatment by the lifting of unnecessary regulation and restriction, they can compete successfully with other forms of transportation, particularly if they are permitted to supplement their rail transportation service with other forms of transportation service.

These comments are made because of the unusual achievement, hereinbefore set forth in detail, of the Illinois Central in doing all within the power of management and the Board of Directors to reduce and unify its debt structure and simplify its capitalization as well as operate its property safely and efficiently. Under these circumstances, this commendable accomplishment is entitled to receive assistance of the Federal and state governments in giving the Railroad every opportunity to compete with other forms of transportation on a fair and equitable basis. Clearly this is imperative not only in the interest of the Railroad, its creditors, and its stockholders, but also in the public interest.



APPENDIX A

Excerpts from Testimony of the Principal Officers and Certain Directors in the Case of Alexander Guttmann and Others against the Illinois Central Railroad Company

Eugene W. Stetson, Chairman of the Executive Committee, testified as follows in the trial in the *Guttmann* case with respect to the bond-purchasing program of the Railroad prior to 1950, the year of the trial:

Q.* Mr. Stetson, could you tell me what your opinion was in the year 1944, with respect to the advisability of continuing the purchase of bonds at that time? A. Well, my opinion in 1944 was the same opinion that I personally had beginning in about 1939 or 1940 and in particular up to the present time, and still is the same, to the effect that I feel quite strongly that the Illinois Central Railroad, if it is going to be a first class railroad and serve the public and promptly pay, as it has done, all of its interest over a period of another hundred years to its bondholders and continue to pay dividends to its preferred stockholders and its common stockholders, should have a smaller debt structure than that which exists even today. So my feeling, I am sure, in 1944 was even stronger than it is today because we had a larger debt.

William R. King, one of the Directors, also testified on this subject:

Q. You had been purchasing bonds through this period from 1940 down to that time? A. Yes.

Q. Did you approve of this program of purchasing bonds? A. I certainly did.

Q. Why? A. In the first place because I had always believed that no company can go broke by paying its debts, and in the second place I felt that the only way we could build this company to an extent, in its financial position to the extent that the short term bondholders would exchange their bonds for long term bonds, would be through further purchase of the bonds.

The late General Clifford W. Gaylord, another Director, testified:

Q. And do you recall that the board undertook a program of purchasing bonds commencing about 1939 and 1940? A. Yes, sir, that was our general plan, a general scheme of operating the railroad.

* By Theodore Kiendl of Davis Polk Wardwell Sunderland & Kiendl, counsel for the Illinois Central.

Q. And you continued to make those purchases in 1941 and 1942 and right down to the present time, is that not correct? A. Yes, that is correct.

Wayne A. Johnston, President of Illinois Central and a Director, testified:

Q. Mr. Johnston, you have served as a director of the Illinois Central Railroad from March 16, 1945 to the present time? A. I did, sir.

Q. During that period of time from 1945 to 1947 did you consider the question of whether the Illinois Central Railroad could declare dividends on its preferred stock? A. On many occasions.

Q. What was your conclusion during that period from 1945 to 1947? A. That they should not be declared.

Q. And why? A. Well, we had set upon a program of rehabilitating the property, on bond purchases in order to get in as many of the early maturities as we could, having in mind that we had quite a serious problem in connection with the refinancing of our bonds in 1950 to 1955.

George W. Bovenizer of Kuhn, Loeb & Company gave the following testimony:

Q. And do you recall that a substantial amount of that debt maturing between 1950 and 1955 was non-callable? A. The most of it was, all but the Refundings in 1955.

Q. Do you recall the amount of net income in general that the Illinois Central had in 1937? A. I have the amount applicable to charges. That is $2,063,842.*

Q. Could you tell us if you have given any consideration to the effect on that net income, assuming it should continue over the succeeding years, the position of the Illinois Central with such income to meet its maturities? A. Well, if it kept on at that rate, and that was the best period of business activity since the depression, for the subsequent sixteen years through 1953 would produce only about $33,000,000 toward meeting these heavy maturities.

Q. In that period of 1950 to 1955? A. Through 1953.

Q. Through 1953. Do you know that commencing in 1939 the Illinois Central purchased over the years 1939 to the present time a substantial amount of its outstanding bonds? A. I believe they started in 1939 with sinking fund money that otherwise would have gone in cash to the RFC on their loan.

Q. That is correct; and then they continued in 1940-1941? A. Yes.

* Net income. In 1937, $18,808,276 was available for fixed charges.

Q. Did you advise with the management and the board regarding this bond purchasing program? A. I did.

Q. Did you approve it? A. Yes, sir.

Q. Did you recommend it? A. I did.

Q. What were your reasons for recommending the bond purchase program? A. I reasoned this way: That with all these non-callable bonds outstanding and covering the best property of the system, in the eyes of the investor we would never get any place unless we could get them in or get them on a basis where they would be willing to take a blanket mortgage, as there were twenty-three mortgages on the northern lines of the system, and I believe five on the southern lines—twenty-eight in all.

Q. Did that number of mortgages present a problem in refinancing? A. A tremendous problem—couldn't do anything with it.

APPENDIX B

Simplification of Corporate Structure

In addition to its constructive program of debt reduction and simplification, the management of the Illinois Central during the past decade has carried out a thoroughgoing revamping of the System's corporate structure also aimed at simplification. Prior to 1945, there were approximately twenty-two wholly owned carrier subsidiaries in the System,* some of which were active and some in-

* Baton Rouge, Hammond & Eastern Railroad Company
Benton Southern Railroad Company
Bloomington Southern Railroad Company
Blue Island Railroad Company†
Canton, Aberdeen & Nashville Railroad Company
Chicago, Memphis & Gulf Railroad Company†
Chicago, St. Louis & New Orleans Railroad Company
Dubuque & Sioux City Railroad Company
Dunleith & Dubuque Bridge Company
Fredonia & Reeds Railroad Company
Golconda Northern Railway Company
Gulf & Ship Island Railroad Company
Herrin Northern Railroad Company
Kensington & Eastern Railroad Company†
Louisville, New Orleans & Texas Railway Company of Arkansas
Meridian, Brookhaven & Natchez Railroad Company
Omaha Bridge & Terminal Railway Company
South Chicago Railroad Company†
Southern Illinois & Kentucky Railroad Company†
St. Louis, Belleville & Southern Railway Company
Yazoo & Mississippi Valley Railroad Company

† "Excepted Properties" as defined by the Consolidation Mortgage.

active. On April 17, 1935, the Company's stockholders authorized the merger of all subsidiaries north of the Ohio River into the parent company. No action was taken pursuant to this authorization until 1945. From 1945 to 1951, the properties of fifteen subsidiaries were transferred to the Illinois Central and their corporate existence terminated.** In 1951, the properties of the Chicago, St. Louis & New Orleans Railroad Company, the lines of which comprised a substantial portion of the southern main line of the System, were also merged into the Illinois Central. With the satisfaction of the Debenture Indenture on February 1, 1954, the Railroad was freed from a limitation therein which prevented it from merging the 127-mile Edgewood Cut-Off, discussed above. Under the Consolidated Mortgage, the Railroad upon the satisfaction of the Debenture Indenture was obligated to subject the Cut-Off to the Consolidated Mortgage, and at the annual meeting held on May 19, 1954, the stockholders of the Railroad authorized the merger into it of the Southern Illinois & Kentucky Railroad Company, the Railroad's wholly owned subsidiary which owned the Cut-Off. On the same date, the stockholders of the subsidiary authorized the merger; and upon approval by the Interstate Commerce Commission, the Edgewood Cut-Off was acquired by the Railroad and was subjected to the lien of the Consolidated Mortgage by a Supplemental Indenture dated July 1, 1954. As a result of this simplification of corporate structure, a substantial saving of franchise taxes has been achieved, and, more important, the corporate operations of the System have been sensibly consolidated.

** As of December 18, 1945, properties of the Mississippi Valley Company were acquired, and as of December 25, 1945, properties of the Gulf & Ship Island Railroad Company. As of July 1, 1946, properties of the following subsidiaries were acquired: Baton Rouge, Hammond & Eastern Railroad Company; Benton Southern Railroad Company; Bloomington Southern Railroad Company; Dubuque & Sioux City Railroad Company; Dunleith & Dubuque Bridge Company; Fredonia & Reeds Railroad Company; Golconda Northern Railway Company; Herrin Northern Railroad Company; Louisville, New Orleans & Texas Railway Company of Arkansas; Meridian, Brookhaven & Natchez Railroad Company; Omaha Bridge & Terminal Railway Company; St. Louis, Belleville & Southern Railway Company; and Yazoo & Mississippi Valley Railroad Company. All the above-mentioned companies were dissolved. The Company has also been authorized to acquire the properties of the Blue Island Railroad Company and Kensington & Eastern Railroad Company.

APPENDIX C

Credit Given to Carlton J. Corliss, Author *Main Line of Mid-America*, Published by the Creative Age Press at the Time of the Railroad's Centennial, February 10, 1951, and to the Members of the "Centennial Committee"

Wayne A. Johnston, President of the Illinois Central, fortunately was able to obtain the expert and unusually valuable services of Carlton J. Corliss in preparing for the centennial celebration the story of the Railroad, which was published under the title *Main Line of Mid-America* by the Creative Age Press. This outstanding publication has been most useful as a reference book, and many favorable comments on it have been received. A very important service was thus rendered by Corliss. In connection with this publication, he had the invaluable help not only of Johnston but of the members of the "Centennial Committee," composed of George M. Crowson, assistant to the President, as Chairman, and Messrs. Albritton, Fitzpatrick, Kimbel, Larsen, Martin, Mottier, Willingham, and Joseph H. Wright. These and former officers were able with other students of the Railroad and the territory to produce a compendium of essential data as to the organization of the Railroad and its development.

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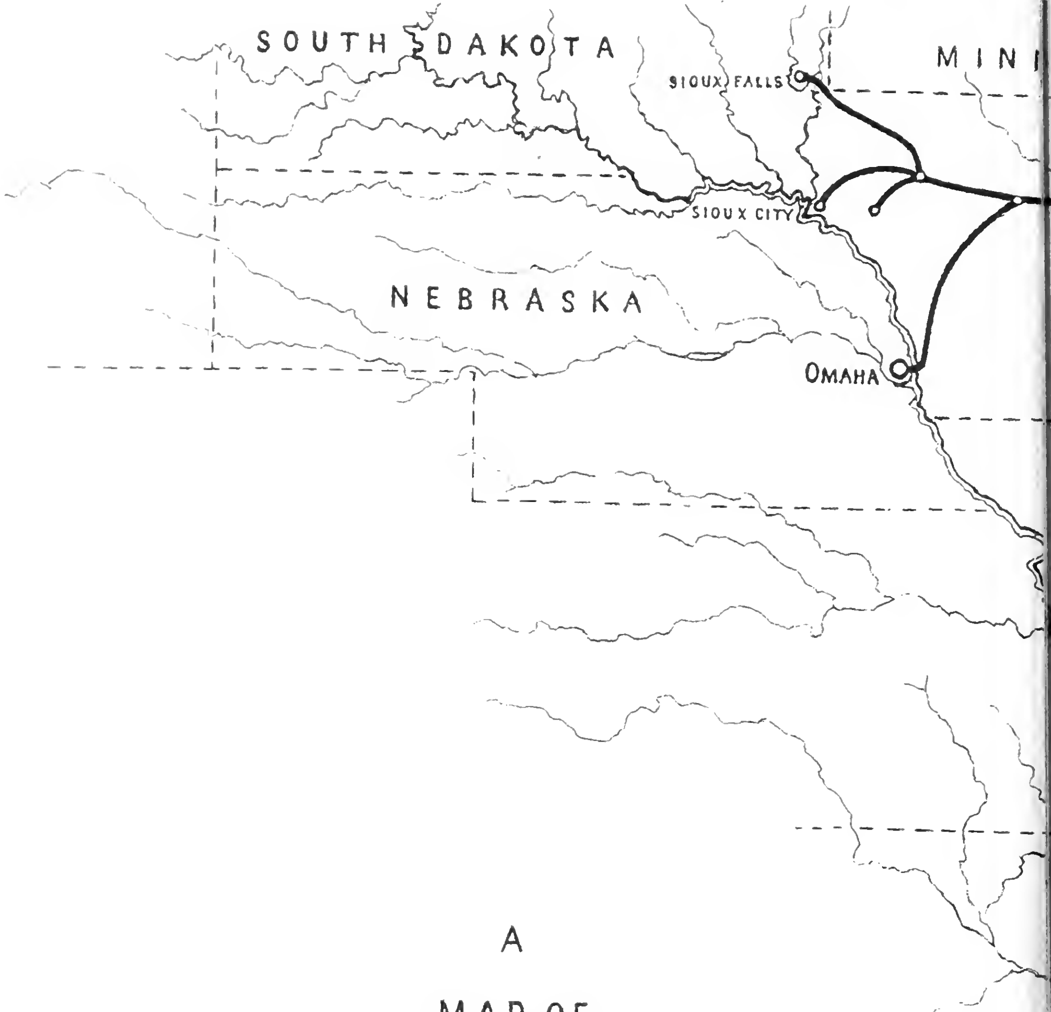

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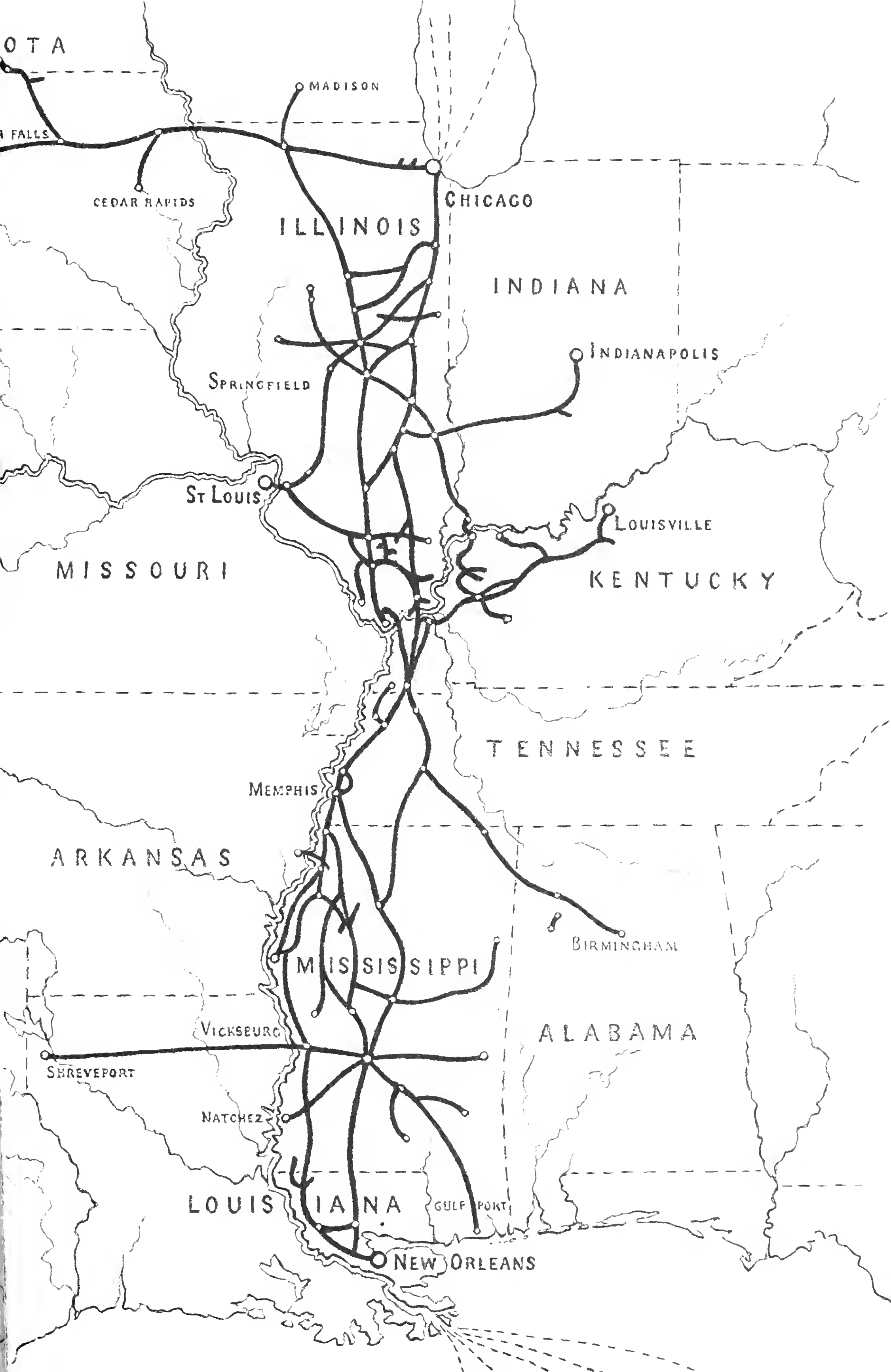
MAP OF

THE

ILLINOIS CENTRAL RAILROAD

1955



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